



**COVERED
CALIFORNIA**

FISCAL YEAR 2021-22 BUDGET

June 17, 2021



Covered California Fiscal Year 2021-22 Operating Budget

This document outlines Covered California's fiscal year 2021-22 budget.

Covered California's budget process is based on established budget principles, processes and procedures to provide the highest levels of fiscal integrity, accountability, transparency and accuracy. The budget seeks to leverage the most cost-effective and efficient level of resources that Covered California needs to carry out its mission and goals.

In prior years, Covered California has combined its annual report to the governor and Legislature with its fiscal year budget. The annual report will be released separately and include budget summary information along with a review of major issues addressed, accomplishments and challenges.

Cover Image

The people featured on the cover have benefited from Covered California's efforts. Their stories (and those of others told here: <https://www.coveredca.com/real-stories/>) go beyond the data to provide personal perspectives on what Covered California has achieved since it first began offering coverage in 2014.

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Covered California Board and Senior Executive Management

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Division Director

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Division Director

Executive Director's Message

The past three years have been tumultuous. Covered California has successfully met multiple challenges and continually sought to deliver on its mission to serve consumers. Covered California responded to the removal of the federal penalty and other federal policies that could have impeded the delivery of benefits of the Patient Protection and Affordable Care Act for Californians, implemented a new state subsidy program and individual mandate, and stepped up for Californians during the pandemic and recession. With the passage of the American Rescue Plan Act, Covered California is now part of the largest national coverage expansion since the advent of the Affordable Care Act.

Throughout all this, Covered California continued expanding coverage and providing financial assistance to consumers and focused on health equity and quality while managing organizational change during the pandemic. Our success at expanding enrollment helped slow the growth of premiums in the individual market — with two years in a row marked by premium increases of less than 1 percent. These successes have enabled more Californians to get covered at a lower cost.

Covered California's fiscal prudence since its inception has allowed it to not only weather the past few years, but to also seize the opportunity to expand its work to meet the coverage and affordability needs of millions of Californians. In 2020, Covered California implemented the new state subsidy program and saw substantial growth in new enrollment. This growth was followed by a recession prompted by the pandemic, which tested Covered California's vital role as part of California's health care safety net. More than 240,000 individuals and families who lost their employer-sponsored insurance were provided an essential lifeline during the COVID-19 special-enrollment period in 2020. The state subsidies boosted financial assistance to many individuals and families during a time of great need. Covered California drew upon its reserves to fund one-time outreach and marketing efforts to ensure that Californians secured the health care coverage they needed.

As we enter fiscal year 2021-22, Covered California is implementing the American Rescue Plan and managing through a recovering economy. The American Rescue Plan builds on the Affordable Care Act and is providing new financial help to millions of Californians. The work to implement this law over a few short months has involved working with an array of state and national partners and every part of our organization. The benefits of that work are now being realized concretely both by the many newly enrolled Californians getting financial help and by those already enrolled through Covered California, who are getting even greater financial support. Outreach efforts are underway to reach even more Californians.

Beyond the enrollment changes occurring due to the American Rescue Plan, a recovering economy will also result in new enrollment inflows and outflows. Some individuals may shift to employer-sponsored insurance as they return to work, while others will begin to transition into Covered California from Medi-Cal with the resumption

of eligibility redeterminations. Over the past 12 months, California's unemployment rate rose to a high of 16 percent and has since fallen to 8.1 percent. An evolving and unpredictable macroeconomic environment means that uncertainty will be inherent in our future enrollment and financial outlook.

Economic and labor market risks remain. COVID-19 variants pose a threat, and vaccine hesitancy may induce increased infection rates that prompt the return of more restrictive measures. Higher inflation may materialize as supply chains fail to meet consumer demand. It is not clear whether inflation will become problematic or represent a short-term and relatively inconsequential event. While the stock market has raced to record highs, a stock market decline could materialize, resulting in declines in state revenues. All these macroeconomic risks would greatly influence enrollment into and out of Covered California as the economy adjusts. Beyond the macroeconomic uncertainty, the timing and size of potential inflows of enrollment from the state's Medi-Cal program are also difficult to plan for with great precision.

While we continue to expect that American Rescue Plan take-up rates and related enrollment will be substantial, our budgeting and planning must recognize the potential of downside risk. Estimates of the take-up rate made by various research organizations vary greatly, with some more optimistic and others more pessimistic. In addition, individual consumer reaction to the availability of new financial support is subject to great variability and uncertainty. Combined, this uncertainty means that Covered California must be cautious as it proceeds. As always, Covered California has built a FY 2021-22 budget that recognizes a range of possible scenarios. As in every budget cycle, Covered California continues to innovate and look for better ways to deliver on its mission. Unlike prior years, however, we are noting to the Covered California board that we may return in the fall with a proposal to revise the budget to the extent that major enrollment and economic factors become more certain.

During the FY 2021-22 budget build, our 19 divisions evaluated their operations, and many provided thoughtful and innovative budget requests. While each request had merits, given the uncertainty surrounding this budget cycle, we decided to delay some decisions until a clearer picture of our enrollment and revenue trends materialize. Although we are limiting financial risk by deferring action on some budget augmentation requests, Covered California is still proposing a budget containing small increases in spending for personnel and operating expenses and equipment.

Covered California's operating budget for FY 2021-22 is \$403.3 million, which represents a decrease of \$36.9 million compared to the FY 2020-21 budget. Permanent staffing increases by 21, from 1,419 to 1,440. Covered California's FY 2021-22 budget incorporates several planned reductions and modifications to capital projects funding.

This year's approved operating budget includes the following elements:

- The elimination of \$30 million in one-time marketing spending for pandemic outreach.

- The elimination of \$10 million in one-time service center spending for increased consumer support during the pandemic.
- Leaving the assessment fee on qualified health plans for 2022 at 3.25 percent.
- The addition of \$11.7 million in budget augmentations above baseline expenses. This includes \$1.9 million to fund 21 new positions associated with workload increases and critical projects, \$5.9 million for contracts and other operating expenses also associated with critical projects and priorities, and \$3.9 million to fund the restoration of the previously negotiated 2.5 percent general salary increase that was suspended in July 2020.
- Assumes the ending of the state employee Personal Leave Program (PLP), which reduced employee salaries by 9.23 percent during FY 2020-21.
- A \$129.7 million investment for marketing and outreach, which includes \$6.6 million for the Navigator program and \$42.3 million for paid media efforts.
- A \$137.4 million investment for our Service Center and Consumer Experience divisions.
- The development of a comprehensive, fiscally sustainable and multi-year capital plan to ensure effective management of capital investments. This plan includes the movement of \$16.3 million in CalHEERS amortizable expenditures out of the operating budget and into the capital projects budget and the development of a multi-year capital plan that will:
 - Identify and prioritize expected needs.
 - Establish project scopes and costs.
 - Detail estimated funding needs, identify sources of funds and measure future projects' operating and maintenance costs.
- Policies to meet potential revenue downturns in the context of planned working capital, including raising the assessment fee and adopting expense reductions.

As always, Covered California remains nimble with sufficient resources to take advantage of opportunities as they arise, which is a testament to our sustained fiscal prudence. Covered California's approved FY 2021-22 budget projects that it will end the fiscal year with cash reserves totaling \$339.2 million, which would fund 9.9 months of budgeted operations.

In this budget, Covered California continues its practice of adhering to a prudent financial strategy that enables it to accomplish its mission. We recognize that while the pandemic is becoming more manageable and the economy is recovering, a degree of uncertainty remains. FY 2021-22 presents opportunities to implement new policies, as the federal government — through the American Rescue Plan — provides enhanced subsidies that can provide 2.5 million Californians with new and expanded financial help to lower their health insurance premiums. Covered California also continues its commitment to fund extensive marketing and outreach efforts to ensure that Californians are aware of the tremendous financial support available in the coming year. At the same time, the fact that those subsidies are currently in law only through 2022 contributes to the uncertainty in future years.

As you review this budget, we encourage you to pause and consider not only the historic scale and impact of our efforts, but also how they are affecting the lives of ordinary Californians. As we go forward, Covered California will focus both on continuing to expand coverage in affordable plans and making sure those who are covered get the care they need.

Like so much of what Covered California does, this budget is the product of teamwork across and beyond our organization. I extend my sincere appreciation to the members of the Covered California board as they provide input and direction throughout this budget development cycle. This has been an extraordinary time for all.



Peter V. Lee

Executive Director, Covered California

I. Introduction

Covered California enters FY 2021-22 in what can fairly be described as its most important period since the federal Patient Protection and Affordable Care Act first started providing coverage in 2014. The Affordable Care Act opened the doors to health care for millions of Americans, and the new American Rescue Plan builds on that success by providing new and expanded financial help to lower health insurance premiums for an estimated 21.8 million Americans¹ and 2.5 million Californians².

The new law will help low- and middle-income Californians save thousands of dollars in health care premiums and strengthen the state's economy as the country emerges from the pandemic and recession.

Covered California finished its most recent 2021 open-enrollment period with more than 1.6 million consumers³, which established a new record high for the most plan selections at the start of a coverage year. The record number of consumers comes after Covered California opened a special-enrollment period throughout the spring and summer of 2020 in response to the COVID-19 pandemic. During this special-enrollment period, hundreds of thousands of people signed up who either did not have health insurance or had lost their coverage due to the pandemic and recession.

The record-high enrollment means Covered California has a strong foundation to build on in serving Californians. This operating budget lays out Covered California's multi-year plan and displays how the exchange operates a strong organization in a competitive market that reaches into every community in the state. The exchange ensures that California's diverse population understands and makes use of the insurance options in this new era of health care.

Highlights of the FY 2021-22 approved budget include:

Self-sufficiency: Covered California remains wholly self-sufficient, as it has been since FY 2016-17, and does not use any state funding for its operations. Covered California relies on the assessment fees it collects from health plans, which will remain at 3.25 percent during FY 2021-22 — after having lowered the assessment fee by 0.25 percentage points in each of the past three fiscal years. Since the cost of these assessments is spread across the entire individual market — both on-exchange

¹ Kaiser Family Foundation. March 25, 2021. "How the American Rescue Plan Act Affects Subsidies for Marketplace Shoppers and People Who Are Uninsured." <https://www.kff.org/health-reform/issue-brief/how-the-american-rescue-plan-act-affects-subsidies-for-marketplace-shoppers-and-people-who-are-uninsured/>.

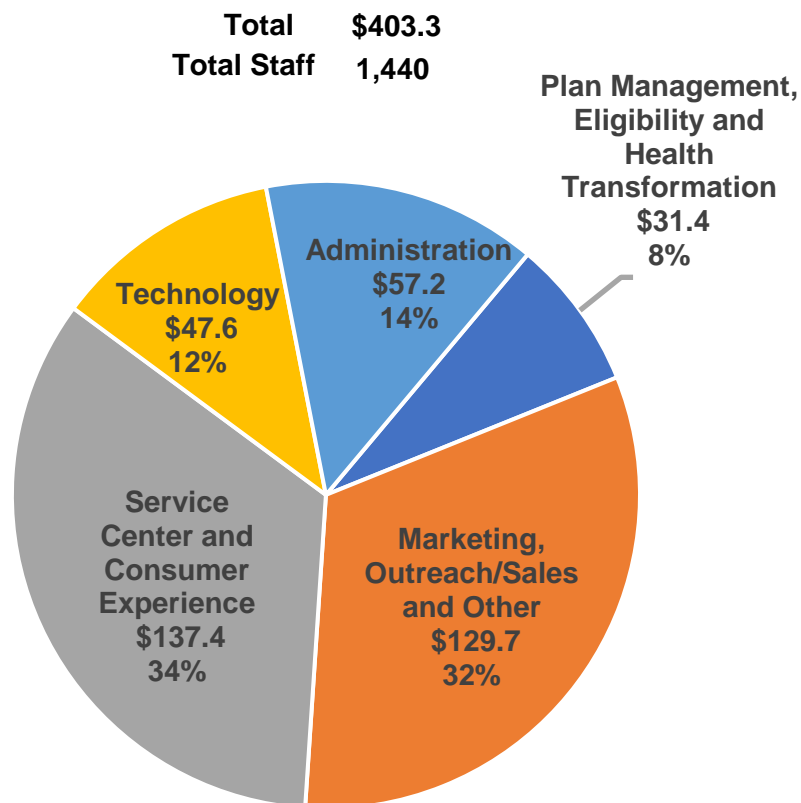
² Covered California. April 12, 2021. "Covered California Opens the Doors for Millions of Californians to Benefit From Lower Health Care Premiums, Save Money and Stimulate the Economy Through the American Rescue Plan." <https://www.coveredca.com/newsroom/news-releases/2021/04/12/covered-california-opens-the-doors-for-millions-of-californians-to-benefit-from-lower-health-care-premiums-save-money-and-stimulate-the-economy-through-the-american-rescue-plan/>.

³ Covered California. Jan. 12, 2021. "Covered California Begins New Year With a Record Number of Plan Selections, Serving Those Hardest Hit by the Pandemic, as State Experiences Post-Holiday Surge of New COVID-19 Cases." <https://www.coveredca.com/newsroom/news-releases/2021/01/12/covered-california-begins-new-year-with-a-record-number-of-plan-selections-serving-those-hardest-hit-by-the-pandemic-as-state-experiences-post-holiday-surge-of-new-covid-19-cases/>.

enrollment and off-exchange enrollment in mirrored products that consumers purchase directly from Covered California’s 11 health insurance companies — this rate will equate to an assessment of about 2.3 percent on all premiums in the individual market in 2022. This assessment — taken with health insurers other direct costs to acquire new enrollees — reflects far lower costs to health insurers, and hence to consumers, than they previously spent to enroll and retain members prior to Covered California.

Operating budget: Covered California’s operating budget for FY 2021-22 is \$403.3 million, which represents a decrease of \$36.9 million compared to the FY 2020-21 approved budget. The operating budget will provide for 1,440 authorized positions to help Covered California carry out its mission. Covered California’s FY 2021-22 budget incorporates several planned adjustments and modifications to how it funds capital projects.

Figure 1
Covered California’s FY 2021-22 Approved Operating Budget Distribution by Major Functional Area (Dollars in Millions)



Investing in marketing and outreach: Covered California will continue its extensive marketing and outreach investments, which have helped it achieve one of the best take-up rates and healthiest risk mixes in the nation — reflected in one of the lowest health

risk scores, which translates into lower premiums. These investments will also ensure Californians know about the new and expanded financial help now available through the American Rescue Plan. The budget for FY 2021-22 includes \$129.7 million for marketing and outreach, which includes \$6.6 million for the Navigator program and \$42.3 million for paid media efforts. The budget also includes \$137.4 million for our Service Center and Consumer Experience divisions.



Holding health plans accountable and promoting better care: Each year, Covered California negotiates with its contracted health insurance companies and holds them accountable for having the lowest possible premiums, delivering the right care at the right time, and promoting changes in health care delivery. These efforts benefit those who enroll through Covered California, the thousands of Californians who purchase directly from these companies in the individual market, and all consumers in California regardless of who pays for their coverage. In the coming year, Covered California will also require its health insurance companies to address significant drops in preventive care due to the COVID-19 pandemic⁴, particularly in childhood immunizations and colorectal cancer screenings, which have exacerbated racial and ethnic health disparities across the state.

Using data analytics to improve quality and equity: Covered California continues to build its infrastructure to identify and develop strategies to assess the quality of care provided to all consumers, with a focus on assessing the extent to which some consumers may receive differences in care or health outcomes based on their race, ethnicity, gender, income and other factors. Covered California's Healthcare Evidence Initiative has data encompassing all care and services provided to its enrollees since 2014, which is increasingly generating actionable information.

New internal investments to promote efficiency: Covered California is investing in a range of information technology solutions to make its operations more efficient, including a human capital management solution to automate manual and paper-based human resources processes that are time-consuming and prone to errors, causing

⁴ Covered California. April 21, 2021. "California's Largest Public Health Care Purchasers Unite to Address Gaps in Childhood Immunizations and Colorectal Cancer Screenings Due to the COVID-19 Pandemic." <https://www.coveredca.com/newsroom/news-releases/2021/04/21/californias-largest-public-health-care-purchasers-unite-to-address-gaps-in-childhood-immunizations-and-colorectal-cancer-screenings-due-to-the-covid-19-pandemic/>.

incorrect and inefficient distribution of information and costly rework. In addition, Covered California is doing a major review of its lease and space planning to ensure that it is making appropriate long-term decisions.

Preparing for the future: The agency continues to invest in its future by providing \$16.3 million for the capital projects fund. The capital projects budgeted expenditures for FY 2021-22 total \$24.3 million, with \$16.3 million associated with amortizable CalHEERS investments. It is projected that the capital projects fund FY 2021-22 ending balance will total \$47.6 million. Infrastructure, technology and major equipment are the foundation for providing services to consumers. The procurement, design, construction, maintenance and operation of capital assets, including intangible assets, are vital activities of Covered California and therefore require careful planning.

A properly prepared capital plan is essential for the future health of Covered California and the continued delivery of services to its consumers. Therefore, Covered California is developing a comprehensive, fiscally sustainable and multi-year capital plan to ensure effective management of capital assets. The multi-year capital plan will:

- Identify and prioritize expected needs.
- Establish project scopes and costs.
- Detail the estimated amount of funding from various sources and each project's future operating and maintenance costs.

Continuing to meet the needs of Californians by delivering on Covered California's mission of expanding coverage and promoting quality care: The budget reflects Covered California's ongoing focus to fulfilling its core strategic priorities while continuously improving performance, striving to ensure that:

- Health care provided through contracted health insurance companies is affordable to consumers.
- Once covered, consumers receive needed care on a timely basis that recognizes the diverse needs and backgrounds of Californians.
- Consumers are provided the encouragement, education and outreach they need to find the coverage most suited to their needs and make informed decisions.
- Consumers have a positive experience that motivates them to maintain their coverage.
- Our organization develops the internal tools and processes to ensure organizational excellence and provide the resources to meet our goals and objectives.
- The budget continues building on all aspects of the organization that promote an effective market for consumers, keep coverage affordable, and make sure that consumers can obtain needed care and have a positive experience working with Covered California. Central to these efforts is ensuring that our workforce has the tools and resources to do their jobs well and that Covered California recognizes, supports and celebrates the diversity of its staff while promoting equity and inclusion at all levels of the organization.

Covered California’s FY 2021-22 budget projects \$399.6 million in revenues/other income and \$403.3 million in operating expenses. It will use resources from its cash reserves to finance the projected deficit. Funding the difference will require the use of \$3.7 million in cash reserve funds (Table 1: Condensed Statement of Revenues, Expenses and Net Operating Income/[Loss] FY 2020-21 Actual/Forecasted Versus FY 2021-22 Approved Budget). Under the mid-range forecast for the multi-year financial projections, Covered California anticipates ending the fiscal year with more than \$339 million in cash reserves, which would cover 9.9 months of operating expenses and maintain reserves that would cover roughly 10 months of annual budgeted operations for the foreseeable future. The organization believes that is a prudent level of targeted cash reserve that would allow for an adjustment to either revenue or expenses in the event of a significant deviation in enrollment from budgetary expectations.

Table 1
Covered California
Condensed Statement of Revenues, Expenses and Net Operating Income/(Loss)
FY 2020-21 Actual/Forecasted Versus FY 2021-22 Approved Budget

| | <u>Fiscal Year 2020-21</u> <u>Forecast as of May 2021</u> | <u>Fiscal Year 2021-22</u> <u>Approved Budget</u> |
|--|--|--|
| Assessment Fee | 3.25% | 3.25% |
| Projected Growth in Premiums | -2.9% | 1.0% |
| Projected Average Monthly Eligibles | 1,539,596 | 1,663,421 |
| Projected Total Member Months Indiv. Market | 18,475,151 | 19,961,054 |
| Projected Individual Market Fee PMPM | \$ 19.17 | \$ 18.58 |
| Individual Market Operating Revenues (Med. Dental) | \$ 356,200,143 | \$ 372,862,785 |
| Covered California for Small Business Revenue | \$ 20,583,630 | \$ 22,217,771 |
| Other Income | \$ 1,446,310 | \$ 4,500,000 |
| Total Revenues | <u>\$ 378,230,083</u> | <u>\$ 399,580,556</u> |
| Total Operating Expenses | <u>\$ 413,865,579</u> | <u>\$ 403,321,177</u> |
| Net Operating Income (Loss) | <u>\$ (35,635,496)</u> | <u>\$ (3,740,621)</u> |

This budget reflects how Covered California’s policies put consumers first, focusing on ensuring that they have good coverage that will provide them high-quality care when they need it. Covered California will continue to make significant investments in marketing and outreach, recognizing that health insurance is a product that needs to be actively sold to consumers.

II. FY 2021-22 Capital Projects Budget

To better plan and manage capital asset acquisitions, Covered California maintains a separate capital projects fund that was established in FY 2017-18. Infrastructure, technology and major equipment are essential for providing services to consumers. The procurement, design, construction, maintenance and operation of capital assets, including intangible assets, are vital activities of Covered California and therefore require careful planning.

A properly prepared capital plan is essential for the future health of Covered California and the continued delivery of services to its consumers. Therefore, Covered California is developing a multi-year capital plan that is comprehensive and fiscally sustainable to ensure effective management of capital assets. The multi-year capital plan will:

- Identify and prioritize expected needs.
- Establish project scopes and costs.
- Detail the estimated amount of funding from various sources and each project's future operating and maintenance costs.

The capital projects resource funding may be derived from operating surpluses or through transfers from Covered California's cash reserve. Based on resolutions through the enactment of its annual budget, the board approves the fiscal year capital projects budget. Capital project budget resources will be approved after evaluating working capital, financial ratios and operational reserves.

The approved FY 2020-21 budget authorized \$20 million in capital project expenditures. (Table 2: FY 2020-21 Actual/Forecasted Capital Projects Expenditures Compared to FY 2020-21 Approved Budget Expenditures). These capital project expenditures are projected to include investments for:

- Capital costs related to the renewal of leases at all locations through 2022, and project and construction management services for the various tenant improvements associated with lease renewals.
- Assistance with the solicitation of leasing proposals for facilities and negotiations with developers.
- Tenant improvements for the service center at 247 E. Nees Ave. in Fresno.
- The acquisition of space on the third floor, and tenant improvements to the new and existing Rancho Cordova space.

Table 2
FY 2020-21 Actual/Forecasted Capital Projects Expenditures
Compared to FY 2020-21 Approved Budget Expenditures
(Dollars in Millions)

| | FY 2020-21 Actual/Forecasted |
|---|---------------------------------|
| FY 2020-21 Approved Capital Projects Budget | \$ 20.0 |
| FY 2020-21 Actual/Forecasted Capital Project Expenditures | \$ (20.0) |
| Difference | \$ - |

FY 2021-22 Capital Project Fund Balance and Approved Budget

Covered California’s capital project fund beginning balance is projected to total \$55.6 million (Table 3: Covered California Capital Project Fund Balance FY 2020-21 Actual/Forecast and FY 2021-22 Approved Budget). Covered California proposes to fund both leasehold capital expenses and specific amortizable expenses associated with CalHEERS enhancements and replacements through the capital projects fund. As previously discussed, Covered California is developing a comprehensive, fiscally sustainable and multi-year capital plan to ensure effective management of capital assets, including technology investments.

Table 3
Covered California Capital Project Fund Balance
FY 2020-21 Actual/Forecast and FY 2021-22 Approved
Budget
(Dollars in Millions)

| | Fiscal Year 2020-21 Forecast as of May 2021 | Fiscal Year 2021-22 Approved Budget |
|--|--|--|
| Capital Projects Fund Beginning Balance | \$ 55.6 | \$ 55.6 |
| Transfer-In From Operating Income/Cash Reserve | \$ 20.0 | \$ 16.3 |
| Total Capital Project Funds Available | \$ 75.6 | \$ 71.9 |
| Capital Project Fund Expenditures for FY | \$ (20.0) | \$ (24.3) |
| Ending Capital Projects Fund | \$ 55.6 | \$ 47.6 |

In FY 2021-22, Covered California proposes to fund \$16.3 million in CalHEERS amortizable expenses through the capital projects fund. In addition, Covered California is proposing an \$8 million budget for leasehold improvements, equipment and furniture (Table 4: Covered California Capital Projects FY 2021-22 Approved Budget).

Table 4
Covered California Capital Projects
FY 2021-22 Approved Budget
(Dollars in Millions)

| | Fiscal Year 2021-22 Approved Budget |
|-----------------------------------|--|
| CalHEERS Amortizable Expenditures | \$ 16.3 |
| Other Capital Investments | \$ 8.0 |
| Total | \$ 24.3 |

III. Covered California’s Fiscal Year 2021-22 Operating Budget: Program Detail and Comparison to the Approved Budget for FY 2020-21

The program detail for Covered California’s FY 2021-22 operating budget provides information on staffing levels and expenditures for each of Covered California’s five major functional areas and 19 divisions, comparing the FY 2021-22 budget to the FY 2020-21 approved budget.

We start with a comparison of operating expenses for each of the five major functional areas. This provides the reader with a high-level overview of how Covered California’s operating expenses change between the FY 2020-21 budget and the FY 2021-22 budget. We highlight significant differences in expenses within each functional area.

We then provide functional area and division-level program detail. Each section starts at the functional area and is followed by division-level summaries. Table 5 presents a key showing each division’s functional area. Each division-level summary includes a brief description of the division and presents the division’s key objectives for FY 2021-22 and major changes in the budget from the prior year. The descriptions provide the rationale for any significant increases in expenditures and staffing included in the approved budget. (Note that this year’s budget is not combined with Covered California’s annual report that is submitted to the governor and the Legislature. Covered California will prepare a separate document in the coming months that summarizes its accomplishments and challenges and will include budget summary information.)

The division-level operating expenses are categorized as follows: Personnel Services, which includes salary and benefits, and Operating Expenses, which includes expenses associated with contracts and all other operational expenses. Allocated expenses refer to expenditures for information technology and other statewide shared enterprise expenses. These expenses are allocated to each program and are presented as separate line items within each division’s program summary. Capital projects are budgeted separately and are presented in Chapter II: FY 2020-21 Capital Projects Budget.

**Table 5
Functional Budget Area Key to Covered California Divisions**

| Functional Area | Division |
|--|--|
| Plan Management, Eligibility and Health Transformation | Plan Management |
| | Policy, Eligibility and Research |
| | Health Equity and Quality Transformation |
| Marketing, Outreach/Sales and Other | Marketing |
| | Outreach and Sales |
| | Program Integrity |
| | Communications and External Affairs |
| Service Center and Consumer Experience | Service Center |
| | Ombuds Office |
| | Customer Care |
| Technology | CalHEERS |
| | Information Technology |
| Administration | Business Services |
| | Financial Management |
| | Human Resources |
| | Office of Legal Affairs |
| | Covered California University |
| | Executive Office |
| | Equal Employment Opportunity Office |

Overall Changes in Operating Expenses Between the FY 2020-21 Approved Budget and the FY 2021-22 Approved Budget by Functional Area

Below is a summary of the major changes for each functional area, which compares the FY 2020-21 approved budgeted operating expenses to the FY 2021-22 budgeted operating expenses (Table 6: Expenses by Major Program Group: FY 2020-21 and FY 2021-22 Approved Budget).

The Plan Management, Eligibility and Health Transformation functional area’s operating budget increase by \$3 million, with an increase of \$1 million in other operating expenses, a \$1.5 million increase in personnel expenses and a \$525,000 increase for IT and pro rata allocations. This functional area includes 100 permanent positions and did not add any new positions; however, 16 positions were transferred from the Plan Management Division to the newly established Health Equity and Quality Transformation Division.

The Marketing, Outreach/Sales and Other functional area’s total operating budget declines by \$29.5 million. This is the net effect of a decrease of \$31.9 million in other operating expenses, an increase in personnel expenses of \$1.9 million, and an increase

in IT and pro rata allocation of \$400,000. The decrease is primarily driven by the elimination of one-time pandemic-related marketing expenses of \$30 million. This functional area includes 184 staff positions, which is unchanged from the FY 2020-21 approved budget.

The Service Center and Consumer Experience functional area’s total operating budget increases by \$2 million. This increase is the net effect of a decrease of pandemic-related one-time expenses of \$11.6 million, an increase in contractual amounts of \$4.1 million, budget augmentations of \$3 million, an increase of \$4.5 million in personnel expenses, and an increase of \$2.8 million in IT and pro rata allocations. This functional area includes 831 staff positions, which is an increase of nine from the prior year’s 822.

The Technology functional area’s total operating budget decreased by \$13.8 million, from \$61.4 million to \$47.6 million. This \$13.8 million decline is the net effect of a decrease of \$15.8 million in other operating expenses, an increase of \$1.2 million in personnel expenses and an increase in IT and pro rata allocations of \$840,000. The decline in other operating expenses is primarily the result of moving CalHEERS amortizable expenses from the operating budget to the capital project budget. This functional area added six new positions for a total of 100 positions in FY 2021-22.

The Administration functional area’s total operating budget increased by \$1.4 million, which is an increase of \$646,000 in other operating expenses, a decrease of \$262,000 in personnel expenses, and an increase in IT and pro rata allocation of \$1 million. This functional area had 219 staff and added six new positions.

**Table 6
Expenses by Major Program Group: FY 2020-21 and FY 2021-22 Approved Budget**

| Major Functional Area | Fiscal Year 2020-21 Approved Budget | Fiscal Year 2021-22 Approved Budget | Difference |
|--|--|--|------------------|
| Plan Management and Eligibility | \$ 28.4 | \$ 31.4 | \$ 3.0 |
| Marketing, Outreach/Sales and Other | \$ 159.2 | \$ 129.7 | \$ (29.5) |
| Service Center and Consumer Experience | \$ 135.4 | \$ 137.4 | \$ 2.0 |
| Technology | \$ 61.4 | \$ 47.6 | \$ (13.8) |
| Administration | \$ 55.8 | \$ 57.2 | \$ 1.4 |
| Total | \$ 440.2 | \$ 403.3 | \$ (36.9) |

Note: The expenses presented in the table represent expenses after allocating pro rata and IT.

Comparing the Approved FY 2020-21 Budget to the Approved FY 2021-22 Budget by Expense Category

Personnel Expenses

The FY 2021-22 approved budget for personnel expenses of \$162.1 million increased \$8.9 million over the FY 2020-21 approved budget. The increase in personnel expenses is largely the result of modifications to the vacancy rate, merit salary adjustments, budgeting for the potential of a 2.5 percent general salary increase and the addition of 21 permanent positions (Figure 2: Comparison of FY 2020-21 Approved Budget to FY 2021-22 Approved Budget). Readers should note that the approved FY 2020-21 budget was not adjusted downward for the 9.23 percent salary reduction that was implemented as part of the policy for all state departments to implement savings through a Personal Leave Program. Total permanent staffing increased by 21 authorized positions, from 1,419 to 1,440.

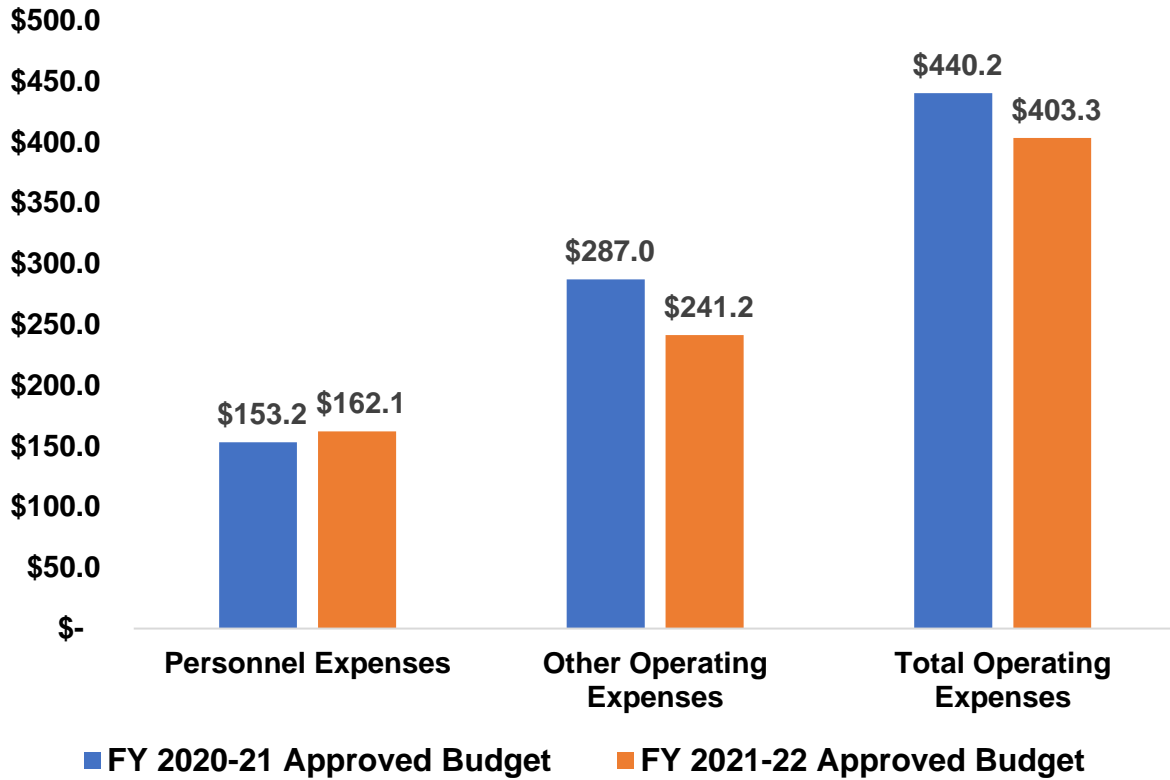
Operating Expenditures

The approved FY 2021-22 budget of \$241.2 million includes all contract and operational expenses, such as paid media, CalHEERS, IT infrastructure, a Service Center surge vendor, Navigators and Covered California for Small Business sales and administrative support. FY 2021-22's other operating expenses are \$45.8 million less than the FY 2020-21 approved budget of \$287 million (Figure 2: Comparison of FY 2020-21 Approved Budget to FY 2021-22 Approved Budget).

The net change of \$45.8 million is the result of eliminating two one-time targeted expenses that were adopted in the FY 2020-21 budget to conduct outreach and enrollment in the face of the recession caused by the COVID-19 pandemic (one-time marketing expenses of \$30 million and eliminating one-time supplemental surge capacity Service Center expenses of \$11.6 million), an increase to information technology expenses of \$4.2 million, an increase in pro rata expenses of \$1.8 million, moving CalHEERS amortizable investments totaling \$16.3 million to the capital projects budget, reducing voter registration expenses by \$1 million and budget augmentations of \$5.9 million.

The budget augmentations include \$3.2 million in surge contractor support for special-enrollment periods and additional \$1.2 million for IT support; \$900,000 to support the Healthcare Evidence Initiative; and \$150,000 for diversity, equity, and inclusion training (Figure 2: Comparison of FY 2020-21 Approved Budget to FY 2021-22 Approved Budget).

Figure 2
Comparison of FY 2020-21 Approved Budget
to FY 2021-22 Approved Budget
(Dollars in Millions)



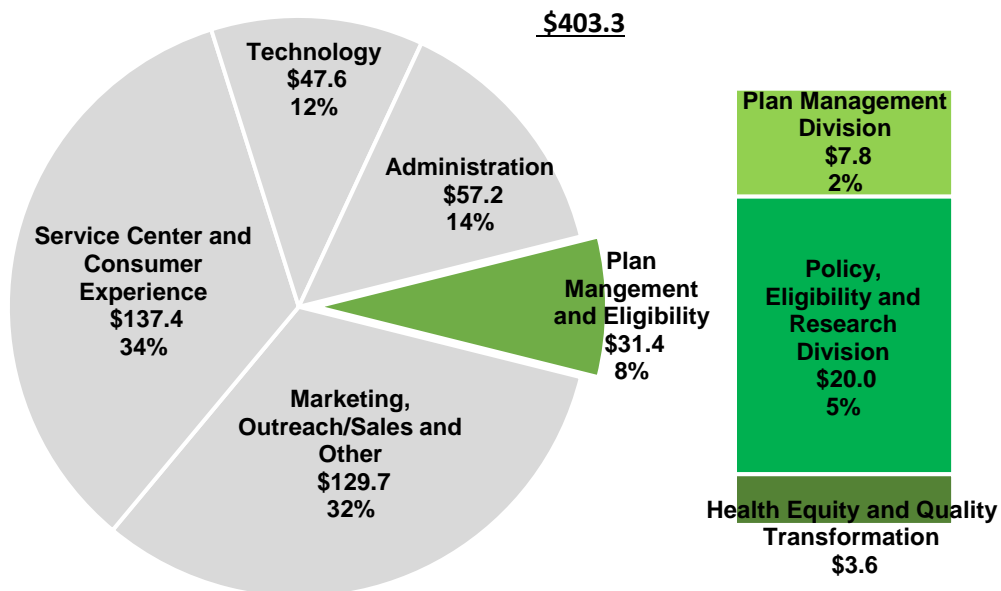
Plan Management, Eligibility and Health Transformation

The Plan Management, Eligibility and Health Transformation functional area includes the Plan Management Division; the Policy, Eligibility and Research Division; and the newly established Health Equity and Quality Transformation Division. The approved budget for FY 2021-22 is \$31.4 million.

Plan Management, Eligibility and Health Transformation: Multi-Year View

| | Fiscal Year 2019-20 | Fiscal Year 2020-21 | Fiscal Year 2021-22 |
|---------------------------------|------------------------|------------------------|------------------------|
| | Actual | Approved Budget | Approved Budget |
| Positions | 89 | 100 | 100 |
| Personnel Expenses | \$ 9,371,551 | \$ 13,095,880 | \$ 14,619,821 |
| Other Operating Expenses | \$ 8,163,920 | \$ 12,944,981 | \$ 13,902,830 |
| Subtotal | \$ 17,535,471 | \$ 26,040,861 | \$ 28,522,651 |
| Allocated Expenses | | | |
| Information Technology | \$ 871,592 | \$ 1,221,572 | \$ 1,468,496 |
| Prorata/Supp. Pension/Other | \$ 934,973 | \$ 1,115,935 | \$ 1,393,948 |
| Total Operating Expenses | \$ 19,342,036 | \$ 28,378,368 | \$ 31,385,095 |

Plan Management, Eligibility and Health Transformation FY 2021-22 Approved Budget (Dollars in Millions)



Plan Management Division

Division Description

The Plan Management Division's purpose is to improve the cost, quality and accessibility of health care delivered to consumers by selecting, negotiating with and holding Covered California's contracted health insurance companies accountable for delivering quality health care while fostering improvements in care delivery that can benefit all Californians.

Division Budget: Multi-Year View

| | Fiscal Year 2019-20 | Fiscal Year 2020-21 | Fiscal Year 2021-22 |
|---------------------------------|------------------------|------------------------|------------------------|
| | Actual | Approved Budget | Approved Budget |
| Positions | 41 | 46 | 30 |
| Personnel Expenses | \$ 5,020,012 | \$ 6,473,194 | \$ 4,418,705 |
| Other Operating Expenses | \$ 1,636,340 | \$ 2,355,000 | \$ 2,551,783 |
| Subtotal | \$ 6,656,352 | \$ 8,828,194 | \$ 6,970,487 |
| Allocated Expenses | | | |
| Information Technology | \$ 401,520 | \$ 561,923 | \$ 440,549 |
| Prorata/Supp. Pension/Other | \$ 371,552 | \$ 411,893 | \$ 354,466 |
| Total Operating Expenses | \$ 7,429,424 | \$ 9,802,010 | \$ 7,765,502 |

Highlights for Approved FY 2021-22 Budget and Key Changes

The Plan Management Division's personnel expenses decline by a net of \$2.1 million. This results from a transfer of 16 positions to the Health Equity and Quality Transformation Division, merit salary adjustments and a 2.5 percent general salary increase.

Permanent personnel declines by 16 positions from the FY 2020-21 approved budget. There are 30 permanent positions⁵.

The Plan Management Division's operating expenses increase by \$196,800 over the FY 2020-21 approved budget. The increase was primarily the result of absorbing a contract with the Integrated Healthcare Association transferred from the Policy, Eligibility and Research Division totaling \$250,000. In addition, Plan Management Division also transferred 16 positions to the newly formed Health Equity and Quality Transformation Division, which resulted in transferring \$53,000 in training, travel and general expenses to the new division.

⁵ This division has one exempt position, the director of Plan Management, which has a budgeted monthly salary of \$15,876. The salary total does not reflect the 9.23 percent reduction associated with the Personal Leave Program implemented in July 2020. This information is reported in compliance with Government Code 100503, Section 2(A).

Key Objectives for Fiscal Year 2021-22

The Plan Management Division will focus on the following core areas in FY 2021-22:

- Conduct regular negotiating, oversight and accountability processes for the 11 contracted health plan issuers and eight contracted dental plan issuers, as well as consider applications for new health plan issuers.
- Gain agreement with contracted health plan issuers and stakeholders on major contractual revisions that will lay the groundwork for major contract changes to take effect in the 2023 plan year. These changes are intended to promote affordability, quality and access to care.

In addition to core division functions and ongoing initiatives listed above, Plan Management (including Health Equity and Quality Transformation) anticipates these key new strategies in the upcoming fiscal year:

- Build upon lessons learned from its health plan issuer contracting experience, continue engaging with external stakeholders, and increase alignment with other purchasers to improve the value and quality of care delivered to individual market consumers and Californians in general. This will be accomplished through material changes in the contracted health plan issuer contracts for plan year 2022, transitioning to more significant changes for the 2023-25 contract term, guided by Covered California's vision for health care in 2030.
- Work with its contracted health plan issuers, aligned purchasers and other interested stakeholders to ensure Covered California enrollees, and Californians in general, receive the best possible health care despite the ongoing COVID-19 pandemic.
- Begin the implementation of Assembly Bill (AB) 929 (California Health Benefit Exchange: data collection), including collecting and using newly available Healthcare Evidence Initiative data to provide public reporting on plan performance. Share learnings from qualified health plan (QHP) contract Attachment 7 requirements with a focus on cost, quality and health disparities.
- Develop the Quality Transformation Initiative, which includes the creation of a parsimonious set of quality measures tied to significant financial penalties for poor performance, with targeted investment of funds to improve performance.
- Refresh the QHP contract Attachment 7 and Attachment 14 with a focus on behavioral health innovation, addressing racial and ethnic disparities and the promotion of advanced primary care.

Policy, Eligibility and Research Division

Division Description

The Policy, Eligibility and Research Division, through its Eligibility Branch, ensures appropriate implementation of program-eligibility rules. The Policy and Research Branch provides accurate, complete and timely policy and data analysis to support evidence-based decision-making, with a focus on analyzing both enrollment and the care provided by contracted health plans to support Plan Management's work to hold health plans accountable.

Division Budget: Multi-Year View

| | Fiscal Year 2019-20 Actual | Fiscal Year 2020-21 Approved Budget | Fiscal Year 2021-22 Approved Budget |
|---------------------------------|--------------------------------------|--|--|
| Positions | 48 | 54 | 54 |
| Personnel Expenses | \$ 4,351,539 | \$ 6,622,686 | \$ 7,011,790 |
| Other Operating Expenses | \$ 6,527,580 | \$ 10,589,981 | \$ 11,297,830 |
| Subtotal | \$ 10,879,119 | \$ 17,212,667 | \$ 18,309,620 |
| Allocated Expenses | | | |
| Information Technology | \$ 470,072 | \$ 659,649 | \$ 792,988 |
| Prorata/Supp. Pension/Other | \$ 563,421 | \$ 704,042 | \$ 869,516 |
| Total Operating Expenses | \$ 11,912,612 | \$ 18,576,358 | \$ 19,972,124 |

Highlights for Approved FY 2021-22 Budget and Key Changes

The Policy, Eligibility and Research Division's personnel expenses increase by \$389,000. This is primarily driven by the net effect of merit salary adjustments, a general salary increase of 2.5 percent and a slight decrease of the vacancy rate.

The number of authorized permanent positions is 54, which is unchanged from the FY 2020-21 approved budget⁶.

The Policy, Eligibility and Research's other operating expenses increase by \$708,000 over the FY 2020-21 approved budget.

⁶ The division has one exempt position, the Policy, Eligibility and Research Division director, which has a budgeted monthly salary of \$15,773. This salary total does not reflect the 9.23 percent reduction associated with the Personal Leave Program implemented in July 2020. This information is reported in compliance with Government Code 100503, Section 2(A).

The increase in the division's budget results from the net effect of contract escalations for cost of living, the transfer of the IHA contract to the Plan Management Division, and an increase in health care analytics capacity. Specific expense changes include:

- A California Health Interview Survey contract with UCLA increase of \$34,000.
- A California Simulation of Insurance Markets (CalSIM) contract with the UC Regents increase of \$24,000.
- An Integrated Health Alliance analytics contract transfer to the Plan Management Division totaling \$250,000.
- An increase of \$900,000 for the Healthcare Evidence Initiative.

The budget augmentation of \$900,000 for the Healthcare Evidence Initiative is a three-year project, which requires the vendor to capture and maintain data on enrollment, utilization, product and benefit design, pricing, access and health disparities.

Key Objectives for Fiscal Year 2021-22

The Policy, Eligibility and Research Division will focus on the following core areas in FY 2021-22:

- Successful implementation of, and evaluation of the impacts of, American Rescue Plan provisions that increase premium affordability for marketplace coverage.
- Successful implementation of, and evaluation of the impacts of, state legislation enabling auto-enrollment of individuals losing Medi-Cal coverage into Covered California.
- Contingent on the passage of the 2021-22 State Budget Act, successful implementation of a new program that would pay the cost of certain abortion services that cannot be paid with federal premium subsidies. This proposal would allow Covered California to offer zero-premium plans for the first time.
- Provision of timely analysis and research to policy makers regarding the coverage and care experience of Covered California to inform national and state policy.

Health Equity and Quality Transformation Division

Division Description

The Health Equity and Quality Transformation Division (HEQT) is established under the leadership of the chief medical officer. Sixteen positions will be transferred from the Plan Management Division⁷, including the Population Care, Quality Improvement, and Clinical teams.

In partnership with stakeholders and purchaser partners, the HEQT division provides expertise and analysis — and holds health plan issuers accountable — so that Covered California enrollees and all Californians receive high-quality, equitable care to improve their health.

Division Budget: Multi-Year View

| | Fiscal Year 2019-20 | Fiscal Year 2020-21 | Fiscal Year 2021-22 |
|---------------------------------|------------------------|------------------------|------------------------|
| | Actual | Approved Budget | Approved Budget |
| Positions | 0 | 0 | 16 |
| Personnel Expenses | \$ - | \$ - | \$ 3,189,326 |
| Other Operating Expenses | \$ - | \$ - | \$ 53,217 |
| Subtotal | \$ - | \$ - | \$ 3,242,543 |
| Allocated Expenses | | | |
| Information Technology | \$ - | \$ - | \$ 234,959 |
| Prorata/Supp. Pension/Other | \$ - | \$ - | \$ 169,967 |
| Total Operating Expenses | \$ - | \$ - | \$ 3,647,469 |

Highlights for Approved FY 2021-22 Budget and Key Changes

The Health Equity and Quality Transformation division is newly established for FY 2021-22. The funding to establish the division was shifted from the Plan Management Division, which transferred 16 positions and their associated general and training expense allocations.

⁷ This division includes the one exempt position of chief medical officer, director, Health Equity Quality Transformation Division, which has a budgeted monthly salary of \$32,917. The salary total does not reflect the 9.23 percent reduction associated with the Personal Leave Program implemented in July 2020. This information is reported in compliance with Government Code 100503, Section 2(A).

Key Objectives for Fiscal Year 2021-22

The Health Equity and Quality Transformation Division will focus on the following core areas in FY 2021-22:

- In conjunction with Plan Management Division, gain agreement with contracted health plan issuers and stakeholders on major contractual revisions to Attachment 7 and Attachment 14 that will lay the groundwork for major contract changes to take effect for the 2023-25 contract term. Priority areas include disparities reduction, behavioral health, value-based payments (particularly for advanced primary care), data exchange, and initiatives to address affordability and cost.
- Work with contracted health plan issuers, aligned purchasers and other interested stakeholders to ensure Covered California enrollees, and Californians in general, receive the best possible health care despite the ongoing COVID-19 pandemic. This includes addressing COVID-19-related gaps in key preventive health services like childhood vaccinations and colorectal cancer screenings, as well as ensuring enrollees receive COVID-19 vaccinations.
- Begin the implementation of Assembly Bill (AB) 929 (California Health Benefit Exchange: data collection), including collecting and using newly available Healthcare Evidence Initiative data to provide public reporting on plan performance. Share learnings from qualified health plan contract Attachment 7 requirements with a focus on cost, quality and health disparities.
- Develop the Quality Transformation Initiative, which includes the development of a parsimonious set of quality measures tied to significant financial penalties for poor performance, in association with other strategies to encourage consumers to enroll in higher-quality health plans.
- Enhance alignment with Medi-Cal and CalPERS through collaboration on priority areas including disparities, common measures for financial incentives, behavioral health, value-based payments and population health management.

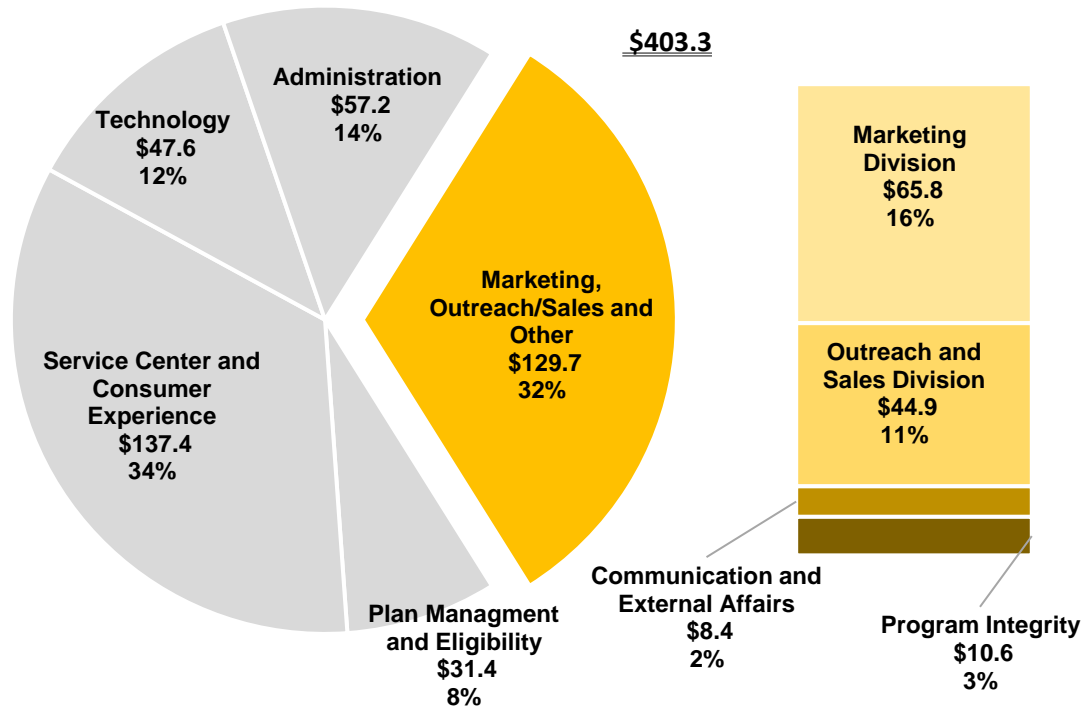
Marketing, Outreach/Sales and Other

Marketing, Outreach/Sales and Other includes the following divisions: Marketing, Outreach and Sales, Communications and External Affairs, and Program Integrity. The approved budget for FY 2021-22 is \$129.7 million.

Marketing, Outreach/Sales and Other: Multi-Year View

| | Fiscal Year 2019-20 Actual | Fiscal Year 2020-21 Approved Budget | Fiscal Year 2021-22 Approved Budget |
|---------------------------------|--------------------------------------|--|--|
| Positions | 182 | 184 | 184 |
| Personnel Expenses | \$ 18,547,108 | \$ 22,840,489 | \$ 24,781,408 |
| Other Operating Expenses | \$ 99,055,899 | \$ 128,762,072 | \$ 96,900,868 |
| Subtotal | \$ 117,603,007 | \$ 151,602,561 | \$ 121,682,276 |
| Allocated Expenses | | | |
| Information Technology | \$ 1,782,359 | \$ 2,247,692 | \$ 2,702,032 |
| Prorata/Supp. Pension/Other | \$ 5,313,642 | \$ 5,391,657 | \$ 5,344,512 |
| Total Operating Expenses | \$ 124,699,008 | \$ 159,241,909 | \$ 129,728,821 |

Marketing, Outreach/Sales and Other FY 2021-22 Approved Budget - \$403.3 (Dollars in Millions)



Marketing Division

Division Description

The Marketing Division is responsible for implementing Covered California’s comprehensive marketing campaign strategy to motivate Californians to enroll in or renew their health insurance through Covered California. Covered California’s marketing and advertising efforts are anchored in effectively reaching the diverse cultures, regions, ethnicities and languages of California.

Division Budget: Multi-Year View

| | Fiscal Year 2019-20 | Fiscal Year 2020-21 | Fiscal Year 2021-22 |
|---------------------------------|------------------------|------------------------|------------------------|
| | Actual | Approved Budget | Approved Budget |
| Positions | 27 | 29 | 29 |
| Personnel Expenses | \$ 3,169,506 | \$ 3,915,546 | \$ 4,190,973 |
| Other Operating Expenses | \$ 69,565,816 | \$ 89,343,702 | \$ 58,584,844 |
| Subtotal | \$ 72,735,322 | \$ 93,259,248 | \$ 62,775,817 |
| Allocated Expenses | | | |
| Information Technology | \$ 264,416 | \$ 354,256 | \$ 425,864 |
| Prorata/Supp. Pension/Other | \$ 3,089,059 | \$ 3,083,071 | \$ 2,593,570 |
| Total Operating Expenses | \$ 76,088,797 | \$ 96,696,574 | \$ 65,795,251 |

Highlights for Approved FY 2021-22 Budget and Key Changes

The Marketing Division’s personnel expenses will increase by \$275,000. This is driven primarily by merit salary adjustments, the general salary increase of 2.5 percent, and assuming a slightly higher vacancy rate.

The number of authorized permanent positions totals 29, which is unchanged from the FY 2020-21 approved budget⁸.

The Marketing Division’s other operating expenses will decline by \$30.8 million compared to the FY 2020-21 approved budget. This results from the net effect of eliminating one-time pandemic marketing expenses of \$30 million, an increase of \$1.5 million for Employment Development Department outreach efforts, an increase of \$300,000 for Office of State Publishing, and a \$155,000 increase for the Salesforce

⁸ The exempt position is director of Marketing, which has a budgeted monthly salary of \$14,875. The salary total does not reflect the 9.23 percent reduction associated with the Personal Leave Program implemented in July 2020. This information is reported in compliance with Government Code 100503, Section 2(A).

Marketing Cloud. In addition, \$1.7 million is allocated from the two marketing contingency line items to fund current year budget augmentations.

Key Objectives for Fiscal Year 2021-22

The Marketing Division will focus on the following core areas in in FY 2021-22:

- Maximize the efficiency of the Marketing Division’s budget by realigning the spending allocations for the open- and special-enrollment periods. This involves considering the increased demand for coverage during special enrollment as a result of extended enrollment opportunities that are available to consumers due to the COVID-19 pandemic and the expansion of federal financial help via the American Rescue Plan. The anticipated lower demand during open enrollment (as a result of increased enrollment during the extended special-enrollment periods) is also a consideration.
- Build advertising campaigns that reach the diverse populations of California, including outreach to the general market in English, complemented by tailored in-language efforts in Spanish, Chinese (Cantonese and Mandarin), Korean, Vietnamese, Hmong, Laotian and Cambodian, as well as tailored in-culture efforts to reach African-American and LGBTQ audiences.
- Continue to build on the American Rescue Plan marketing campaign launched in April 2021 to deliver the message about the availability of expanded financial help to newly subsidy-eligible consumers and the remaining uninsured in compelling and tangible ways.
- Continue to conduct strategic research projects to gain insights about members, uninsured consumers and specialized populations, such as those who are insured off-exchange. Research projects will include message testing, creative concept testing and deep-dive research into areas where further understanding would improve program efficacy and the consumer journey.
- Continue targeting different populations, such as funnel consumers and members who have canceled their insurance, in a comprehensive outreach campaign emphasizing the additional financial help available through the American Rescue Plan.
- Develop an ongoing partnership with the Employment Development Department (EDD) to send messaging directly to unemployment insurance beneficiaries informing them of the unique benefits offered through the American Rescue Plan for consumers who have received unemployment insurance during 2021.
- Expand the partnership with the Franchise Tax Board to send messaging to those consumers who paid a tax penalty for not having health insurance during 2020 informing them of the additional financial help through the American Rescue Plan and how to avoid paying a penalty in the future.
- Develop an ongoing partnership with the Department of Health Care Services (DHCS) to build and support a process for transitioning off Medi-Cal and on to Covered California.

Outreach and Sales Division

Division Description

The purpose of the Outreach and Sales Division is to support the “on the ground” work to educate Californians about health insurance and help them enroll by supporting independent insurance agents and running a Navigator program. It also operates the Covered California for Small Business program that helps small businesses get coverage that can better meet the needs of the business and their employees. The Outreach and Sales Division has two components: the individual market and Covered California for Small Business.

Division Budget: Multi-Year View

| | Fiscal Year 2019-20 Actual | Fiscal Year 2020-21 Approved Budget | Fiscal Year 2021-22 Approved Budget |
|---------------------------------|--------------------------------------|--|--|
| Positions | 62 | 62 | 62 |
| Personnel Expenses | \$ 6,566,794 | \$ 7,605,435 | \$ 8,135,815 |
| Other Operating Expenses | \$ 26,246,156 | \$ 35,164,620 | \$ 34,030,474 |
| Subtotal | \$ 32,812,950 | \$ 42,770,055 | \$ 42,166,289 |
| Allocated Expenses | | | |
| Information Technology | \$ 607,177 | \$ 757,374 | \$ 910,467 |
| Prorata/Supp. Pension/Other | \$ 1,508,458 | \$ 1,549,094 | \$ 1,847,650 |
| Total Operating Expenses | \$ 34,928,585 | \$ 45,076,523 | \$ 44,924,406 |

Highlights for Approved FY 2021-22 Budget and Key Changes

The Outreach and Sales Division’s personnel expenses will increase by \$530,000, from \$7.6 million to \$8.2 million. The increase is driven by merit salary adjustments, a general salary increase of 2.5 percent and a slight change in the vacancy rate.

The number of authorized permanent positions totals 62, which is unchanged from the FY 2020-21 approved budget⁹.

The Outreach and Sales Division’s other operating expenses decrease by \$1.1 million. The decrease is the net result of a \$1.5 million reduction in Covered California for Small Business fiscal intermediary expenses, a \$150,000 increase in the Navigator program, a \$20,000 decrease in temporary employee expenses, a \$285,000 increase for

⁹ The exempt position in this division is the director of Individual and Small Business Outreach and Sales, which has a budgeted monthly salary of \$19,259. This salary total does not reflect the 9.23 percent reduction associated with the Personal Leave Program implemented in July 2020. This information is reported in compliance with Government Code 100503, Section 2(A).

technology, a reduction in consulting expenses of \$183,000, and an increase of \$155,000 for State Controller's Office charges.

Key Objectives for Fiscal Year 2021-22

The Outreach and Sales Division will focus on the following core areas in FY 2021-22:

- Continue active outreach, communications and education programs to more than 10,000 certified enrollers who provide person-to-person enrollment assistance to hundreds of thousands of Californians who seek their guidance each year. The program includes improving virtual training programs and providing guidance and education that are especially relevant in today's environment where consumers need help on a real-time basis. In addition, we will continue to support the Navigator program through a competitive selection process to extend the program for 2022-23 and beyond.
- Invest in improving operational efficiency, including a three-year expenditure of \$8.5 million to upgrade Covered California for Small Business's enrollment and eligibility platform and processes. The improved capability will enable the program to efficiently and accurately onboard employer groups, employees and covered dependents and increase the number of Californians who can access affordable and comprehensive health coverage. The investment provides for additional staffing, technology enhancements and long-term cost and quality control.

Communications and External Affairs Division

Division Description

The Communications and External Affairs Division serves multiple functions, including developing, coordinating and executing an extensive program of media relations and public communications that support enrollment; developing an overarching strategy for the public-facing website content on CoveredCA.com; and maintaining federal and state government relations, tribal relations and stakeholder support and engagement.

Division Budget: Multi-Year View

| | Fiscal Year 2019-20 | Fiscal Year 2020-21 | Fiscal Year 2021-22 |
|---------------------------------|------------------------|------------------------|------------------------|
| | Actual | Approved Budget | Approved Budget |
| Positions | 30 | 30 | 30 |
| Personnel Expenses | \$ 3,206,696 | \$ 4,226,080 | \$ 4,736,918 |
| Other Operating Expenses | \$ 2,837,955 | \$ 2,808,750 | \$ 2,840,550 |
| Subtotal | \$ 6,044,651 | \$ 7,034,830 | \$ 7,577,468 |
| Allocated Expenses | | | |
| Information Technology | \$ 293,796 | \$ 366,471 | \$ 440,549 |
| Prorata/Supp. Pension/Other | \$ 320,729 | \$ 309,750 | \$ 378,847 |
| Total Operating Expenses | \$ 6,659,176 | \$ 7,711,052 | \$ 8,396,864 |

Highlights for Approved FY 2021-22 Budget and Key Changes

For FY 2021-22, the Communications, Public Relations and External Affairs divisions are combined into the Communications and External Affairs Division. The division's personnel expenses will increase by \$511,000 over the FY 2020-21 approved budget. This is the result of merit salary adjustments, the general salary increase of 2.5 percent and a modification to the vacancy rate.

The number of authorized permanent positions is 30, which is unchanged from the FY 2020-21 approved budget¹⁰.

The other operating expenses increase by \$32,000 over the FY 2020-21 approved budget. The increase is associated with the addition of a public relations software tool.

¹⁰ The exempt position in this division is the director of Communications, Public Relations and External Affairs, which has a budgeted monthly salary of \$19,316. This salary total does not reflect the 9.23 percent reduction associated with the Personal Leave Program implemented in July 2020. This information is reported in compliance with Government Code 100503, Section 2(A).

Key Objectives for Fiscal Year 2021-22

Communications and External Affairs will focus on the following core areas in FY 2021-22:

- Establish and implement a program focused specifically on effective external relations by building networks and bolstering outreach and education for both state and federal government officials and stakeholders.
- Fortify efforts to inform federal and state policy makers on policies that leverage and build on the Affordable Care Act and that provide a model for current and future policy change, including the American Rescue Plan and American Families Plan, as well as state legislative and budget action.
- Promote enrollment through extensive and innovative earned, owned and paid media efforts designed to educate consumers and the media about the new and expanded subsidies available through the American Rescue Plan, the fact that premiums have never been lower, and the importance of Covered California and the health care coverage options it offers.
- Raise awareness of Covered California's efforts and lessons learned through proactive outreach to national and statewide news outlets as well as prominent health-related outlets.
- Improve the consumer experience of CoveredCA.com through evidence-based updates aimed at increasing understanding and ease of use.
- Provide communications expertise and support across the organization to further the goals of individual divisions, including writing, designing and developing messaging for significant publications such as the budget, annual report, rate booklet, policy issue briefs and external presentations.

Program Integrity Division

Division Description

The Program Integrity Division consists of two units. Its Reconciliation of Enrollment and Membership Unit ensures accuracy and alignment of data between Covered California and carrier systems and conducts system testing and performance review of CalHEERS. Its Program Oversight and Compliance Unit conducts internal and external audits and assists all divisions in identifying and remediating enterprise-wide risks. The division encourages accountability, transparency, effectiveness, efficiency and risk management by independently reviewing key business areas to help ensure compliance with federal and state laws, regulations and policies.

Division Budget: Multi-Year View

| | Fiscal Year 2019-20 | Fiscal Year 2020-21 | Fiscal Year 2021-22 |
|---------------------------------|------------------------|------------------------|------------------------|
| | Actual | Approved Budget | Approved Budget |
| Positions | 63 | 63 | 63 |
| Personnel Expenses | \$ 5,604,112 | \$ 7,093,428 | \$ 7,717,703 |
| Other Operating Expenses | \$ 405,972 | \$ 1,445,000 | \$ 1,445,000 |
| Subtotal | \$ 6,010,084 | \$ 8,538,428 | \$ 9,162,703 |
| Allocated Expenses | | | |
| Information Technology | \$ 616,970 | \$ 769,590 | \$ 925,152 |
| Prorata/Supp. Pension/Other | \$ 395,396 | \$ 449,742 | \$ 524,445 |
| Total Operating Expenses | \$ 7,022,450 | \$ 9,757,760 | \$ 10,612,300 |

Highlights for Approved FY 2021-22 Budget and Key Changes

The Program Integrity Division's personnel budget increases by \$624,000. This is primarily the result of merit salary adjustments, the general salary increase of 2.5 percent and an assumed lowering of the vacancy rate.

The number of authorized permanent positions is 63, which is unchanged from the FY 2020-21 approved budget¹¹.

There is no change in the Program Integrity Division's other operating expense budget from the FY 2020-21 approved budget.

¹¹ The exempt position in this division is the Program Integrity Division director, which has a budgeted monthly salary of \$15,773. This salary total does not reflect the 9.23 percent reduction associated with the Personal Leave Program implemented in July 2020. This information is reported in compliance with Government Code 100503, Section 2(A).

Key Objectives for Fiscal Year 2021-22

The Program Integrity Division will focus on the following core areas in FY 2021-22:

- Ensure the accuracy and consistency of consumer eligibility information between CalHEERS and the carrier systems.
- Streamline and enhance the CalHEERS testing processes.
- Refine and enhance data analytics to detect potential fraud, waste and abuse trends.
- Enhance and promote enterprise-wide risk management processes.
- Improve and protect organizational value by providing independent and objective assurance, advice and insight.

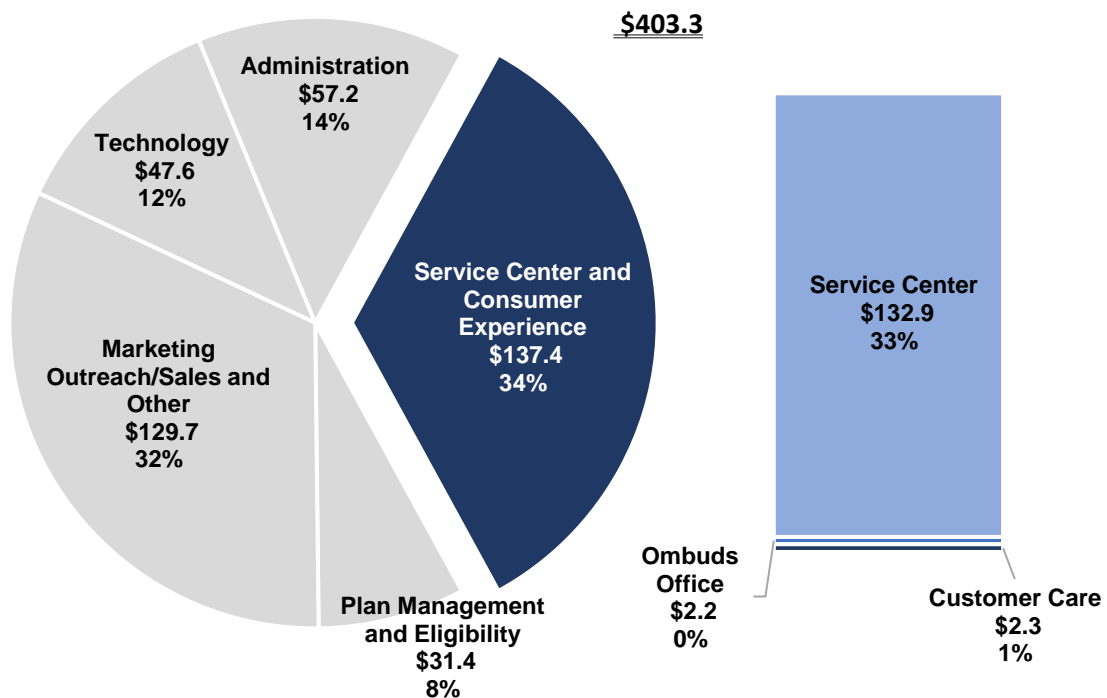
Service Center and Consumer Experience

Service Center and Consumer Experience includes the following divisions: Service Center, Ombuds Office, and Customer Care. The total approved budget for FY 2021-22 is \$137.4 million.

Service Center and Consumer Experience: Multi-Year View

| | Fiscal Year 2019-20 | Fiscal Year 2020-21 | Fiscal Year 2021-22 |
|---------------------------------|------------------------|------------------------|------------------------|
| | Actual | Approved Budget | Approved Budget |
| Positions | 819 | 822 | 831 |
| Personnel Expenses | \$ 62,645,590 | \$ 70,466,465 | \$ 74,955,080 |
| Other Operating Expenses | \$ 36,682,846 | \$ 43,930,841 | \$ 38,651,781 |
| Subtotal | \$ 99,328,436 | \$ 114,397,306 | \$ 113,606,861 |
| Allocated Expenses | | | |
| Information Technology | \$ 13,020,607 | \$ 15,041,318 | \$ 17,203,200 |
| Prorata/Supp. Pension/Other | \$ 6,022,252 | \$ 5,964,364 | \$ 6,626,323 |
| Total Operating Expenses | \$ 118,371,295 | \$ 135,402,988 | \$ 137,436,385 |

Service Center and Consumer Experience FY 2021-22 Approved Budget (Dollars in Millions)



Service Center

Division Description

The Service Center provides comprehensive pre- and post-enrollment education and support to Covered California consumers by responding to consumer inquiries, enrolling consumers in health plans and promptly resolving challenges that prevent them from receiving health and dental benefits. These efforts ensure consumers receive the right care at the right time at an affordable price, retain coverage and are satisfied with Covered California products and services. The Service Center consists of the following office operational branches:

1. Contact Center Operations Branch
2. Internal Compliance and Support Branch
3. Consumer Relations and Resolution Branch
4. Resource Planning and Management Branch
5. Strategic Innovation and Implementation Branch

Division Budget: Multi-Year View

| | Fiscal Year 2019-20 | Fiscal Year 2020-21 | Fiscal Year 2021-22 |
|---------------------------------|------------------------|------------------------|------------------------|
| | Actual | Approved Budget | Approved Budget |
| Positions | 798 | 799 | 808 |
| Personnel Expenses | \$ 60,327,941 | \$ 67,583,347 | \$ 71,954,090 |
| Other Operating Expenses | \$ 36,429,890 | \$ 43,489,841 | \$ 37,707,781 |
| Subtotal | \$ 96,757,831 | \$ 111,073,188 | \$ 109,661,871 |
| Allocated Expenses | | | |
| Information Technology | \$ 12,814,951 | \$ 14,760,357 | \$ 16,865,446 |
| Prorata/Supp. Pension/Other | \$ 5,866,848 | \$ 5,793,510 | \$ 6,410,763 |
| Total Operating Expenses | \$ 115,439,630 | \$ 131,627,055 | \$ 132,938,080 |

Highlights for Approved FY 2021-22 Budget and Key Changes

The Service Center Division's personnel expenses increase by \$4.4 million over the FY 2020-21 approved budget. The increase in personnel expenses is the result of adding nine new positions. Eight positions are associated with the multicase household duplicate account resolution project, and one is associated with the implementation of the workforce and quality management software applications. In addition, merit salary adjustments, and a general salary increase of 2.5 percent also contributes to the increase.

The total number of authorized permanent positions increases from 799 to 808 in FY 2021-22¹².

The Service Center Division's other operating expenses decrease by \$5.8 million relative to the FY 2020-21 approved budget. This constitutes the net effect of removing one-time pandemic support of \$11.6 million, an increase of \$3.6 million for contractual baseline adjustments, and a reduction of \$953,000 for California Department of Social Services administrative hearings. In addition, \$3.2 million in special-enrollment surge funding is added to support customer service capacity, and \$12,000 is added for new staff related to training and equipment expenses.

Key Objectives for Fiscal Year 2021-22

The Service Center division will continue its core focus on effectively responding to as many consumer inquiries as possible by leveraging all available planning tools and resources. Through March 2021 in FY 2020-21, the Service Center provided personal assistance 2.1 million times to consumers and there were an additional 1.3 million occasions of consumers being served through responses provided by the Integrated Voice Response automated response system that addresses consumers' issues with recorded messages.

For FY 2020-21, consumers registered a very high level of satisfaction in the services provided, stating they were "very satisfied" 87.7 percent of the time for callers in open enrollment and 86.8 percent for those calling during special enrollment. The Service Center's goal is to maintain the rate at which consumers who complete calls are "very satisfied" at or above the 85 percent mark in the coming year. Additional key deliverables for the upcoming fiscal year are:

- **Open-enrollment support:** The Service Center anticipates over 1 million consumer contacts during open enrollment through inbound calls, outbound enrollment campaigns and live chat interactions. This forecast is comparable to FY 2020-21 volumes. The division's goal is for the funding for surge positions to improve the consumer experience and enable more consumers to get services. In the very high call volume period of open enrollment, Covered California has always "staffed up" and at the same time recognized that it is not possible to meet standard service goals in a fiscally sound manner. With the surge staffing capacity and anticipated reductions in call handle times, the Service Center hopes to see a substantial improvement in meeting the service-level target related to the percentage of calls answered within 30 seconds during open enrollment (increasing from 11 percent to 55 percent). In addition, the improved service is hoped to reduce the abandonment rate during open enrollment from 19 percent to less than 9 percent.
- **Expanded special-enrollment support:** Early projections anticipate over 1.8 million consumer contacts during the special-enrollment period, which is forecasted to be comparable to FY 2020-21 volumes. Funding of comparable resources should allow the Service Center to have resources where most

¹² This division has one exempt position, the Service Center Division director, which has a budgeted monthly salary of \$14,402. This salary total does not reflect the 9.23 percent reduction associated with the Personal Leave Program implemented in July 2020. This information is reported in compliance with Government Code 100503, Section 2(A).

needed to effectively handle the additional calls and maintain the abandonment rate from FY 2020-21 of 4.5 percent. There remains a high degree of uncertainty in planning for the volumes and types of calls for the coming year, including the unknown impact to call volumes because of the American Rescue Plan.

- **Ancillary Service Center functions:** In addition to inbound phone and live chat support, the Service Center is responsible for the processing of enrollment verification documents, Licensed Insurance Agent call center overflow support, appeals, escalations and subsidy tax disputes. The funding for additional inbound phone and live chat allows the Service Center to repurpose existing staff to support these ancillary programs during critical periods.

Ombuds Office

Division Description

The Ombuds Office consists of two units. Its Ombuds Affairs Unit provides consumers an objective, unbiased and accessible resource when other resolution or customer service channels have been exhausted. Its Appeals Fulfillment Unit serves as an independent resource to implement Administrative Law Judge decisions following eligibility-determination appeals. Together, these units identify systemic challenges and promote solutions to prevent issues from recurring to improve the experience of Covered California consumers.

Division Budget: Multi-Year View

| | Fiscal Year 2019-20 | Fiscal Year 2020-21 | Fiscal Year 2021-22 |
|---------------------------------|------------------------|------------------------|------------------------|
| | Actual | Approved Budget | Approved Budget |
| Positions | 13 | 15 | 15 |
| Personnel Expenses | \$ 1,495,552 | \$ 1,779,841 | \$ 1,798,068 |
| Other Operating Expenses | \$ 14,075 | \$ 52,000 | \$ 52,000 |
| Subtotal | \$ 1,509,627 | \$ 1,831,841 | \$ 1,850,068 |
| Allocated Expenses | | | |
| Information Technology | \$ 127,311 | \$ 183,236 | \$ 220,274 |
| Prorata/Supp. Pension/Other | \$ 92,803 | \$ 100,606 | \$ 111,551 |
| Total Operating Expenses | \$ 1,729,741 | \$ 2,115,683 | \$ 2,181,894 |

Highlights for Approved FY 2021-22 Budget and Key Changes

Ombuds Office personnel expenses increase by \$18,000. This is the result of the net effect of merit salary adjustments, a general salary increase of 2.5 percent and a change in the vacancy rate from the prior year.

The number of authorized permanent positions totals 15, which is unchanged from the FY 2020-21 approved budget¹³.

The Ombuds Office's other operating expenses recognize no change from the FY 2020-21 approved budget.

¹³ The Ombuds office has one exempt position, the Ombuds Office Division director, which has budgeted monthly salary of \$10,696. This salary total does not reflect the 9.23 percent reduction associated with the Personal Leave Program implemented in July 2020. This information is reported in compliance with Government Code 100503, Section 2(A).

Key Objectives for Fiscal Year 2020-21

The Ombuds Office will focus on the following core areas in FY 2021-22:

- Develop and operationalize a formal Root Cause Analysis process.
- Continue to increase Ombuds Office education and outreach to reduce the number of erroneous referrals, calls and inquiries.
- Enhance and streamline the consumer's call experience by a consumer feedback survey on the toll-free line.

Customer Care Division

Division Description

The Customer Care Division’s purpose is to optimize and enhance the consumer experience regardless of service channel (e.g., self-serve, through the Covered California Service Center, via a Covered California Licensed Insurance Agent or Certified Enrollment Counselor). Ultimately, this work involves a high level of coordination, transparency and collaboration throughout the organization to understand and facilitate improvement of the consumer experience during all phases of the consumer journey. This effort is foundational to Covered California’s purpose of making health insurance more affordable and easier to purchase for individuals and small businesses.

Division Budget: Multi-Year View

| | Fiscal Year 2019-20 | Fiscal Year 2020-21 | Fiscal Year 2021-22 |
|---------------------------------|------------------------|------------------------|------------------------|
| | Actual | Approved Budget | Approved Budget |
| Positions | 8 | 8 | 8 |
| Personnel Expenses | \$ 822,097 | \$ 1,103,277 | \$ 1,202,922 |
| Other Operating Expenses | \$ 238,881 | \$ 389,000 | \$ 892,000 |
| Subtotal | \$ 1,060,978 | \$ 1,492,277 | \$ 2,094,922 |
| Allocated Expenses | | | |
| Information Technology | \$ 78,345 | \$ 97,726 | \$ 117,480 |
| Prorata/Supp. Pension/Other | \$ 62,601 | \$ 70,247 | \$ 104,009 |
| Total Operating Expenses | \$ 1,201,924 | \$ 1,660,250 | \$ 2,316,411 |

Highlights for Approved FY 2021-22 Budget and Key Changes

Customer Care’s personnel expenses increase by \$99,000. This is the result of the net effect of merit salary adjustments, a 2.5 percent general salary increase and a lower assumed vacancy rate relative to the prior year.

The number of authorized permanent positions totals eight, which is unchanged from the FY 2020-21 approved budget¹⁴.

Customer Care’s other operating expenses increase by \$503,000. This is the result of increasing the Guidehouse Inc. contract by \$125,000, and the transfer from the Information Technology division of the Public Consulting Group contract for \$375,000.

¹⁴ This division has one exempt position, the Customer Care Division director, which has a budgeted monthly salary of \$12,958. This salary total does not reflect the 9.23 percent reduction associated with the Personal Leave Program implemented in July 2020. This information is reported in compliance with Government Code 100503, Section 2(A).

Key Objectives for Fiscal Year 2021-22

The Customer Care Division will focus on the following core areas in in FY 2021-22:

- Progress consumer journey mapping initiatives into Phase 2 by mapping consumer expectations, preferences, behaviors, pain points and sentiments experienced. Subsequently, efforts will expand into care access and a deeper understanding of Medi-Cal and enroller experiences.
- Develop a roadmap and implementation plan for Covered California's Chatbot (CiCi) integration into CalHEERS. Continuing to work on cross-cutting layered initiatives, such as embedded videos and live chat.
- Establish the Language Consistency Workgroup that will focus on standardizing health care terminology and content across all Covered California touchpoints. Create a catalog of commonly used terms across all consumer communication touchpoints, as well as developing a language matrix for terms and definitions.
- Establish a workgroup to review the consumer communication saturation and establish a strategy for aligned and efficient communication through the various touchpoints, including Covered California, Department of Health Care Services, qualified health plan issuers, enrollers and other providers of health services.

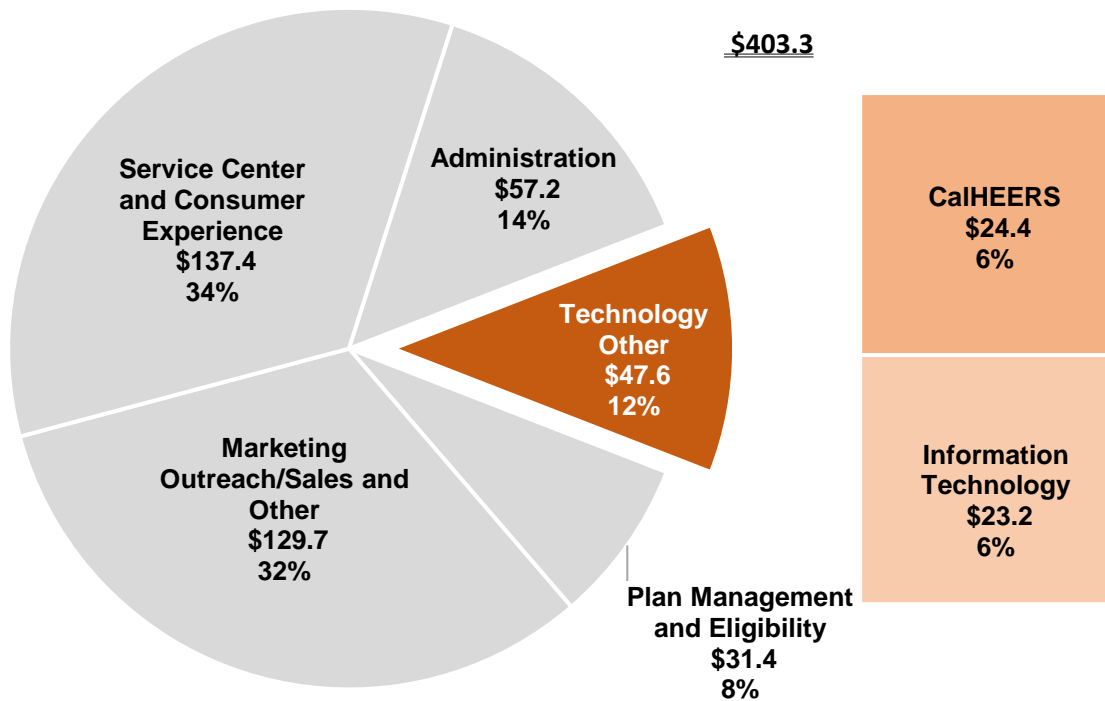
Technology

Technology includes the Information Technology (IT) Division and the consumer enrollment system, the California Healthcare Eligibility, Enrollment and Retention System (CalHEERS). The total approved FY 2021-22 budget is \$47.6 million.

Technology: Multi-Year View

| | Fiscal Year 2019-20 | Fiscal Year 2020-21 | Fiscal Year 2021-22 |
|---------------------------------|------------------------|------------------------|------------------------|
| | Actual | Approved Budget | Approved Budget |
| Positions | 84 | 94 | 100 |
| Personnel Expenses | \$ 11,314,893 | \$ 15,308,340 | \$ 16,497,459 |
| Other Operating Expenses | \$ 42,050,158 | \$ 43,355,068 | \$ 27,548,201 |
| Subtotal | \$ 53,365,051 | \$ 58,663,408 | \$ 44,045,660 |
| Allocated Expenses | | | |
| Information Technology | \$ 822,626 | \$ 1,148,277 | \$ 1,468,496 |
| Prorata/Supp. Pension/Other | \$ 1,532,379 | \$ 1,559,418 | \$ 2,087,661 |
| Total Operating Expenses | \$ 55,720,056 | \$ 61,371,103 | \$ 47,601,817 |

**Technology FY 2021-22
Approved Budget
(Dollars in Millions)**



CalHEERS

Division Description

The California Healthcare Eligibility, Enrollment and Retention System (CalHEERS) serves as the consolidated system support for eligibility, enrollment and retention for Covered California and Medi-Cal. The CalHEERS portal enables consumers to research, compare, check their eligibility for and purchase health coverage in one place. The Office of Systems Integration (OSI) oversees the consumer-facing system that runs California’s single streamlined application for all affordable insurance programs, including Medi-Cal.

CalHEERS is jointly sponsored by Covered California and the California Department of Health Care Services. The project is governed by an executive steering committee that represents each of the participating agencies and has guided the project since its inception.

Division Budget: Multi-Year View

| | Fiscal Year 2019-20 Actual | Fiscal Year 2020-21 Approved Budget | Fiscal Year 2021-22 Approved Budget |
|---------------------------------|--------------------------------------|--|--|
| Positions | | | |
| Personnel Expenses | | \$ - | \$ - |
| Other Operating Expenses | \$ 39,818,818 | \$ 40,665,068 | \$ 24,399,041 |
| Subtotal | \$ 39,818,818 | \$ 40,665,068 | \$ 24,399,041 |
| Allocated Expenses | | | |
| Information Technology | | \$ - | \$ - |
| Prorata/Supp. Pension/Other | \$ - | \$ - | \$ - |
| Total Operating Expenses | \$ 39,818,818 | \$ 40,665,068 | \$ 24,399,041 |

Highlights for Approved FY 2021-22 Budget and Key Changes

The CalHEERS other operating expenses declines by \$16.3 million. This decline represents the proportion of budgeted expenses projected to be amortizable. The FY 2021-22 approved budget moves CalHEERS amortizable expenses to Covered California’s capital projects budget, which increases by \$16.3 million. This change represents a funding change and does not affect the overall expenses for the fiscal year.

Key Objectives for Fiscal Year 2021-22

CalHEERS will focus on the following core areas in FY 2021-22:

- Continue efforts to provide an integrated eligibility, enrollment and retention solution that supports our sponsor organizations in delivering health services to consumers in collaboration with business partners throughout California.
- Continue to improve upon the most customer-centric portal and be a trusted leader in providing access to affordable, high-quality health services for all Californians.
- Deliver product features that are of the highest value as quickly as possible to enhance the business needs and user experience and increase stakeholder satisfaction.

In addition to the core division functions and ongoing initiatives listed above, CalHEERS anticipates these key new strategies in the upcoming fiscal year:

- Continuing efforts to move all CalHEERS infrastructure to the cloud, allowing the project to shut down on-premise data center hardware at a significant savings.
- Completing high-priority enhancements for counties (referred to as “Business Rules Exposure”).
- Completing the initial planning and implementation of auto-enrollment of consumers moving from Medi-Cal to Covered California coverage based on income redeterminations (supported by Senate Bill 260).
- Implementing the final pieces of the state subsidy program, including state tax reporting forms.
- Support federal and state policy changes in response to the global COVID-19 pandemic, including functionality to support the new American Rescue Plan, which incorporates newly enhanced and extended federal tax credits to make health insurance more affordable and allows enhanced enrollment for the eligible uninsured and people insured off-exchange in the individual market.

Information Technology Division

Division Description

The Information Technology Division provides technology and security services to all Covered California divisions, consumers and stakeholders to support operations and enrollment services in a manner that is financially sustainable. This effort includes providing oversight of the ongoing development and operations of CalHEERS for Covered California.

Three branches carry out specific functions in the Information Technology Division: the Information Security Branch, Operations Branch for delivery of IT services, and Strategic Initiatives for project management and support for the full systems-development lifecycle and support for analytics throughout the enterprise.

Division Budget: Multi-Year View

| | Fiscal Year 2019-20 | Fiscal Year 2020-21 | Fiscal Year 2021-22 |
|---------------------------------|------------------------|------------------------|------------------------|
| | Actual | Approved Budget | Approved Budget |
| Positions | 84 | 94 | 100 |
| Personnel Expenses | \$ 11,314,893 | \$ 15,308,340 | \$ 16,497,459 |
| Other Operating Expenses | \$ 2,231,340 | \$ 2,690,000 | \$ 3,149,160 |
| Subtotal | \$ 13,546,233 | \$ 17,998,340 | \$ 19,646,619 |
| Allocated Expenses | | | |
| Information Technology | \$ 822,626 | \$ 1,148,277 | \$ 1,468,496 |
| Prorata/Supp. Pension/Other | \$ 1,532,379 | \$ 1,559,418 | \$ 2,087,661 |
| Total Operating Expenses | \$ 15,901,238 | \$ 20,706,035 | \$ 23,202,776 |

Highlights for Approved FY 2021-22 Budget and Key Changes

The Information Technology Division's personnel expenses increase by \$1.2 million. The increase results from adding six new positions, merit salary adjustments, a 2.5 percent general salary increase and modifications to the prior year's assumed vacancy rate.

One new position is added to support the business process-management solution and one supports the Human Resources division's Workday application. Another new position supports the Service Center work-at-home software upgrade, and three new positions are dedicated to the replacement of the Service Center Workforce and Quality Management Software applications.

The number of authorized permanent positions increases from 94 to 100¹⁵.

The Information Technology Division's other operating expenses after IT allocation increase \$2.5 million relative to the FY 2020-21 approved budget. This increase is associated with baseline adjustments related to software licensing, support, storage and maintenance. IT's other operating expenses are allocated to each of Covered California division's proportionate share of authorized permanent staff.

The FY 2021-22 budget augmentations before IT allocations includes \$400,000 for business process management support, \$611,000 to improve Service Center representative work-at-home capabilities, \$325,000 to replace Service Center workforce and quality management software applications, and \$300,000 to upgrade managed security and incident response services.

Key Objectives for Fiscal Year 2021-22

The Information Technology Division will focus on the following core areas in FY 2021-22:

- Provide oversight of the ongoing development, support and operation of CalHEERS, including management of a strategic roadmap delivering significant platform enhancements supporting the American Rescue Plan, California Proposition 22, consumer value journey mapping, and a technology refresh transition from our legacy on-premises datacenter to Amazon Web Services (AWS) cloud infrastructure.
- Manage secure adherence to and implement federal policies governing Covered California's authority to connect to sensitive federal data services and operate as a health benefit exchange, including support for the Centers for Medicare and Medicaid Services (CMS) MARS-E security and privacy framework.
- Partner with Covered California leadership, collaborate with technology leaders from state and federal agencies, and continue the productive application of human-centered design, Agile frameworks, financial discipline and improved governance processes to manage a portfolio of technology investments and capabilities that support the business value propositions of Covered California.
- Ensure secure, timely, cost-effective and regulatory-compliant system implementation and operation by developing an enterprise technology architecture function, authoring enterprise-wide policies and standards, and providing leadership, strategy and oversight for complex, consumer-facing technology solution implementations.
- Strengthen Covered California's security posture and reduce information security risks by promoting a security program that increases enterprise-wide cybersecurity awareness and enhances security operations.
- Support Covered California staff's return to a secure, collaborative, productive hybrid work environment at the conclusion of the COVID-19 pandemic.

¹⁵ The IT division has one exempt position, the director of Information Technology, which has a monthly salary of \$21,667. This salary total does not reflect the 9.23 percent reduction associated with the Personal Leave Program implemented in July 2020. This information is reported in compliance with Government Code 100503, Section 2(A).

Administration

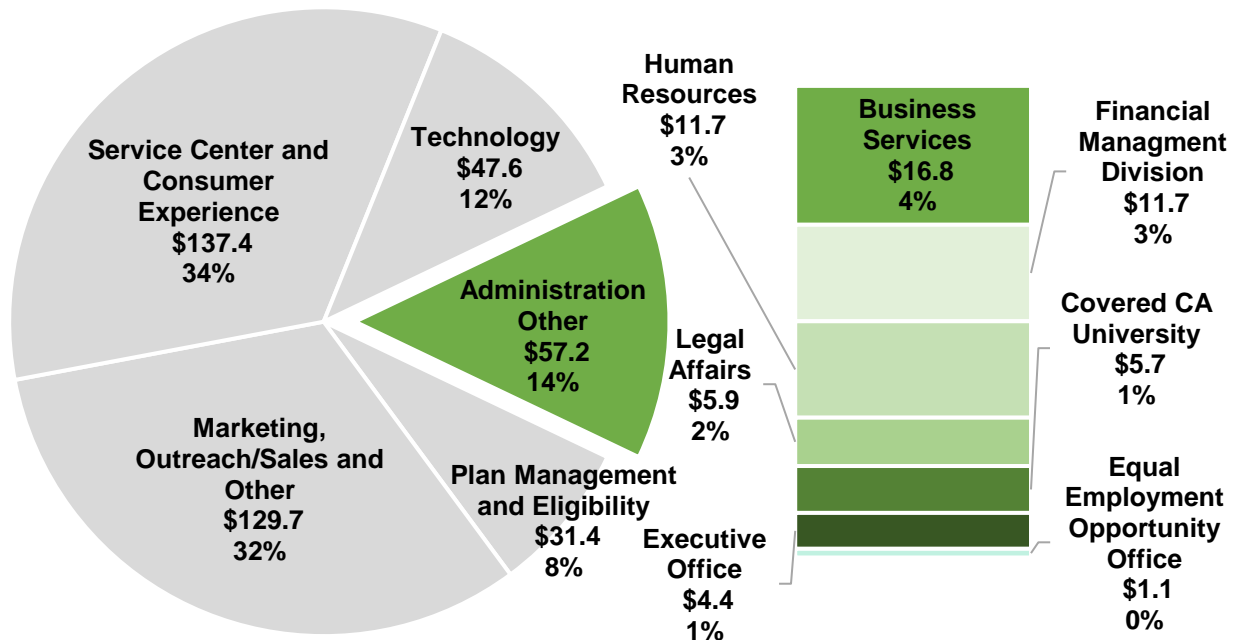
Administration includes the following program areas: the Business Services Branch, the Financial Management Division, the Human Resources Branch, the Office of Legal Affairs, Covered California University, the Executive Office, and the Equal Employment Opportunity Office. The total approved budget for FY 2021-22 is \$57.3 million.

Administration: Multi-Year View

| | Fiscal Year 2019-20 Actual | Fiscal Year 2020-21 Approved Budget | Fiscal Year 2021-22 Approved Budget |
|---------------------------------|--------------------------------------|--|--|
| Positions | 217 | 219 | 225 |
| Personnel Expenses | \$ 27,140,836 | \$ 31,439,661 | \$ 31,221,053 |
| Other Operating Expenses | \$ 15,583,437 | \$ 19,423,912 | \$ 20,026,804 |
| Subtotal | \$ 42,724,273 | \$ 50,863,573 | \$ 51,247,857 |
| Allocated Expenses | | | |
| Information Technology | \$ 2,125,119 | \$ 2,675,242 | \$ 3,304,116 |
| Prorata/Supp. Pension/Other | \$ 2,278,376 | \$ 2,245,379 | \$ 2,617,087 |
| Total Operating Expenses | \$ 47,127,768 | \$ 55,784,194 | \$ 57,169,060 |

Administration FY 2021-22 Approved Budget (Dollars in Millions)

\$403.3



Business Services Branch

Division Description

The Business Services Branch is responsible for providing guidance and consultation on contract and purchasing services; carrying out health, safety and wellness services; providing central support functions for administrative programs enterprise-wide; ensuring facilities are well maintained and secure and managing our physical resources through facilities operations.

Division Budget: Multi-Year View

| | Fiscal Year 2019-20 | Fiscal Year 2020-21 | Fiscal Year 2021-22 |
|---------------------------------|------------------------|------------------------|------------------------|
| | Actual | Approved Budget | Approved Budget |
| Positions | 40 | 40 | 41 |
| Personnel Expenses | \$ 4,368,790 | \$ 5,225,481 | \$ 4,838,220 |
| Other Operating Expenses | \$ 8,993,676 | \$ 10,336,245 | \$ 10,669,871 |
| Subtotal | \$ 13,362,466 | \$ 15,561,726 | \$ 15,508,091 |
| Allocated Expenses | | | |
| Information Technology | \$ 391,727 | \$ 488,629 | \$ 602,083 |
| Prorata/Supp. Pension/Other | \$ 648,313 | \$ 612,036 | \$ 724,711 |
| Total Operating Expenses | \$ 14,402,506 | \$ 16,662,390 | \$ 16,834,885 |

Highlights for Approved FY 2021-22 Budget and Key Changes

Business Services Branch personnel expenses decrease by \$387,000. This is primarily driven by the net effect of merit salary adjustments, the 2.5 percent general salary increase, and a modification to the assumed vacancy rate.

The number of authorized permanent positions totals 41, which is an increase of one from the FY 2020-21 approved budget. This position was included in the blanket expenses and is now being transitioned to a permanent authorized position. This staffing increase does not require additional funding, as the funding was incorporated into the baseline budget as part of the personnel blanket expenses.

The Business Services Branch's other operating expenses increase by \$333,000 over the FY 2020-21 approved budget. The increase results from additional postage and FedEx Corporate Services and increases in lease expenses.

Key Objectives for Fiscal Year 2021-22

The Business Services Branch will focus on the following core areas in in FY 2021-22:

- Continue to improve upon the quality of services provided, successfully achieve all business services activities, and implement all legislatively mandated policies and procedures.
- Provide ongoing support for teleworking staff and oversee the return to the workplace. Meet the safety needs of staff and the community related to COVID-19, including developing practical guidelines for working in the office and social-distancing guidelines.
- Continue to build upon the health, safety and wellness practices that were established when responding to the COVID-19 pandemic and carry them through the new fiscal year.
- Develop physical space occupation guidelines and a strategic master plan for Covered California's facilities in a post-COVID-19 world, including determining leased space needs in the future.
- Develop electronic processes to streamline Business Services functions: contract development and signing, invoice processing, records management, service portal and more. As we move into a more telework-focused environment, there is a need to convert our manual paper processes into an electronic format.
- Implement the business continuity software that includes emergency notifications for employees. This will allow us to be more agile when responding to emergencies and notify staff in real-time.

Financial Management Division

Division Description

The Financial Management Division plans, implements and guides all Covered California financial activities, including finance, accounting, forecasting, budgeting and governmental compliance. The division consists of two branches: Accounting and Accounting Systems Operations and Financial Planning and Forecasting Operations. Within those units lie critical accounting functions, including payroll, financial reporting, accounts receivable and payable, financial modeling, financial forecasting and financial systems.

Division Budget: Multi-Year View

| | Fiscal Year 2019-20 Actual | Fiscal Year 2020-21 Approved Budget | Fiscal Year 2021-22 Approved Budget |
|---------------------------------|--------------------------------------|--|--|
| Positions | 57 | 57 | 58 |
| Personnel Expenses | \$ 6,913,498 | \$ 8,230,393 | \$ 7,752,829 |
| Other Operating Expenses | \$ 2,154,547 | \$ 2,791,991 | \$ 2,533,991 |
| Subtotal | \$ 9,068,045 | \$ 11,022,384 | \$ 10,286,820 |
| Allocated Expenses | | | |
| Information Technology | \$ 558,211 | \$ 696,296 | \$ 851,728 |
| Prorata/Supp. Pension/Other | \$ 508,812 | \$ 513,065 | \$ 557,186 |
| Total Operating Expenses | \$ 10,135,068 | \$ 12,231,744 | \$ 11,695,734 |

Highlights for Approved FY 2021-22 Budget and Key Changes

The Financial Management Division's personnel expenses decrease by \$478,000. The decrease in personnel expenses is primarily the result of merit salary adjustments, the 2.5 percent general salary increase and modifying the assumed vacancy rate.

The number of authorized permanent positions totals 58, which increases from 57 in FY 2020-21¹⁶.

The Financial Management Division's other operating expenses decrease by \$258,000 relative to FY 2020-21. The net decrease is the result of eliminating contracts, an increase in mail delivery expenses, and additional general and training expenses

¹⁶ The exempt position in the Financial Management Division is the chief financial officer and division director, which has a budgeted monthly salary of \$15,750. This salary total does not reflect the 9.23 percent reduction associated with the Personal Leave Program implemented in July 2020. This information is reported in compliance with Government Code 100503, Section 2(A).

associated with one new position. The Financial Management Division added one new position in FY 2021-22 for financial reporting.

Key Objectives for Fiscal Year 2021-2022

The Financial Management Division will focus on the following core areas in FY 2021-22:

- Complete a Financial Management Division Strategic Plan.
- Continue to evaluate and enhance internal controls over financial reporting.
- Reengineer the Financial Planning and Analysis Section and acquire the right talent and technology to continue building a center of excellence for forecasting, financial modeling and planning.
- Establish a training program for accounting staff to enhance skills for financial reporting.
- Identify key performance indicators.
- Assist with the transition of the fiscal intermediary for Covered California for Small Business.

Human Resources Branch

Division Description

The Human Resources Branch provides overall policy direction on human resource management and administrative support functions related to the management of employees via the following units: Labor Relations Office, Employment and Classification Services, Payroll and Benefits, Performance Management, Talent Acquisition and Operations and Disability Management.

Division Budget: Multi-Year View

| | Fiscal Year 2019-20 Actual | Fiscal Year 2020-21 Approved Budget | Fiscal Year 2021-22 Approved Budget |
|---------------------------------|--------------------------------------|--|--|
| Positions | 52 | 52 | 54 |
| Personnel Expenses | \$ 6,023,903 | \$ 6,533,371 | \$ 6,790,197 |
| Other Operating Expenses | \$ 1,578,245 | \$ 3,341,500 | \$ 3,555,305 |
| Subtotal | \$ 7,602,148 | \$ 9,874,871 | \$ 10,345,502 |
| Allocated Expenses | | | |
| Information Technology | \$ 509,245 | \$ 635,217 | \$ 792,988 |
| Prorata/Supp. Pension/Other | \$ 436,279 | \$ 462,243 | \$ 549,613 |
| Total Operating Expenses | \$ 8,547,672 | \$ 10,972,331 | \$ 11,688,103 |

Highlights for Approved FY 2021-22 Budget and Key Changes

The Human Resources Division's personnel expenses increase by \$256,000. This net increase results from the addition of two new permanent positions, merit salary adjustments and the 2.5 percent general salary increase.

The number of authorized permanent positions totals 54, which represents an increase of two positions from the FY 2020-21 approved budget.

The Human Resources division's other operating expenses increase by \$213,000 compared to FY 2020-21. The net increase results from a decrease of \$121,000 related to Workday software implementation, a \$135,000 increase related to recruitment and testing services, a \$185,000 increase in unemployment benefits, a \$3,000 increase for SCO charges, a \$9,000 increase for project management application, and a \$2,000 increase for general and equipment expenses for one new staff position.

Key Objectives for Fiscal Year 2021-2022

The Human Resources Branch will focus on the following core areas in FY 2021-22:

- Assist with all talent acquisition and recruitment functions to ensure a diverse and qualified workforce while maintaining low vacancy rates throughout the organization.
- Recruit, hire and develop a high-performing workforce that reflects the communities we serve. Ensure practices consistently provide equal opportunities and strive to close representation gaps at all levels.
- Identify opportunities to strengthen engagement with diverse groups to improve the overall effectiveness of our recruitment strategies.
- Ensure that leaders at all levels promote the vision and business case for Diversity, Equity and Inclusion by taking actions to increase diversity and equity in the workforce and maintain an inclusive workplace.
- Ensure all staff feel valued and that all aspects of the organization reflect the voice, contributions and interests of a multicultural constituency.
- Foster ongoing growth and development among staff in line with an equity plan/strategy. Participate in the Diversity, Equity and Inclusion Workgroup.
- Coordinate and administer employee relations and labor relations policies and procedures and provide advice and assistance to managers and supervisors on employee complaints and grievances, work conditions, employee rights and management prerogatives and obligations.
- Provide consultative services to Covered California supervisors and managers throughout the life cycle of the hiring process, ensuring all merit selection and employment best practices, rules and regulations are followed.
- Provide consultation and training to managers and supervisors on employee performance, employment laws, rules and departmental policies.

Office of Legal Affairs

Division Description

The Office of Legal Affairs offers a wide range of legal services to all Covered California staff by providing preventive legal advice and consultation to ensure compliance with laws and to mitigate legal liability. The Office of Legal Affairs interfaces with state and federal regulatory agencies and provides legal advice on a variety of matters pertaining to Covered California and its programs, contracts and operations. The Office of Legal Affairs ensures that all legal agreements are fulfilled and that Covered California operates within its legal authority. Additionally, the Office of Legal Affairs provides guidance on any statutes or regulations pertaining to Covered California.

Division Budget: Multi-Year View

| | Fiscal Year 2019-20 | Fiscal Year 2020-21 | Fiscal Year 2021-22 |
|---------------------------------|------------------------|------------------------|------------------------|
| | Actual | Approved Budget | Approved Budget |
| Positions | 24 | 24 | 24 |
| Personnel Expenses | \$ 3,032,894 | \$ 3,580,449 | \$ 3,859,074 |
| Other Operating Expenses | \$ 1,277,306 | \$ 1,380,500 | \$ 1,380,500 |
| Subtotal | \$ 4,310,200 | \$ 4,960,949 | \$ 5,239,574 |
| Allocated Expenses | | | |
| Information Technology | \$ 235,036 | \$ 293,177 | \$ 352,439 |
| Prorata/Supp. Pension/Other | \$ 234,714 | \$ 226,328 | \$ 270,043 |
| Total Operating Expenses | \$ 4,779,950 | \$ 5,480,454 | \$ 5,862,057 |

Highlights for Approved FY 2021-22 Budget and Key Changes

The Office of Legal Affairs' personnel expenses increase by \$278,000. The increase results from merit salary adjustments, a 2.5 percent general salary increase and modifications to the assumed vacancy rate.

The number of authorized permanent positions is 24, which is unchanged from the FY 2020-21 approved budget¹⁷.

¹⁷ This division has one exempt position, the director of the Office of Legal Affairs, which has a budgeted monthly salary of \$16,667. The salary total does not reflect the 9.23 percent reduction associated with the Personal Leave Program implemented in July 2020. This information is reported in compliance with Government Code 100503, Section 2(A).

The Office of Legal Affairs' other operating expenses recognize no change from the FY 2020-21 budget total.

Key Objectives for Fiscal Year 2021-22

The Office of Legal Affairs will focus on the following core areas in FY 2021-22:

- Continue to partner with all Covered California divisions to meet Covered California's vision and strategic pillars in an efficient and legally compliant manner.
- Provide legal support and guidance to all Covered California divisions to fully implement the various policies enacted from the American Rescue Plan.
- Promulgate state regulations to codify Covered California's policies to ensure that members of the public are aware of these policies and to ensure that Covered California remains compliant with new and changing federal and state laws.

Covered California University

Division Description

Covered California University is the enterprise training and knowledge management branch. The branch collaborates with programs and interacts across the organization to leverage subject matter experts in a vast array of disciplines, acts as a consultant on information dissemination and training initiatives, and maintains written materials and training courses that support the organization and its partners. The branch administers the technology that supports information and training, including the Customer Relationship Management Knowledgebase and Absorb Learning Management System. The branch consists of the following sections: Training Design and Delivery Section, the Knowledge Management Section and Operations and Special Projects.

Division Budget: Multi-Year View

| | Fiscal Year 2019-20 | Fiscal Year 2020-21 | Fiscal Year 2021-22 |
|---------------------------------|------------------------|------------------------|------------------------|
| | Actual | Approved Budget | Approved Budget |
| Positions | 31 | 31 | 31 |
| Personnel Expenses | \$ 3,770,845 | \$ 4,051,052 | \$ 4,101,931 |
| Other Operating Expenses | \$ 476,110 | \$ 580,000 | \$ 850,537 |
| Subtotal | \$ 4,246,955 | \$ 4,631,052 | \$ 4,952,468 |
| Allocated Expenses | | | |
| Information Technology | \$ 303,588 | \$ 378,687 | \$ 455,234 |
| Prorata/Supp. Pension/Other | \$ 248,226 | \$ 235,133 | \$ 275,888 |
| Total Operating Expenses | \$ 4,798,769 | \$ 5,244,872 | \$ 5,683,590 |

Highlights for Approved FY 2021-22 Budget and Key Changes

Covered California University's personnel expenses increase by \$50,000. This is the result of merit salary adjustments, the 2.5 percent general salary increase and modifications to the assumed vacancy rate.

The number of authorized permanent positions totals 31, which is unchanged from the FY 2020-21 approved budget.

Covered California University's other operating expenses increase by \$270,000 relative to FY 2020-21. The increase results from the net effect of reducing training expenses through CalHR by \$50,000, adding \$68,000 for LinkedIn Learning, adding \$257,000 for Leadership and Development Affordable Care Academy and \$2,000 for additional software licenses.

Key Objectives for Fiscal Year 2021-22

Covered California University will focus on the following core areas in FY 2021-22:

- Continue to assess learning and development needs to provide knowledge and training services to all Covered California employees, service channels, vendors, and partners through a variety of methods, including instructor-led, virtual instructor-led and eLearning using our learning management system.
- Research, develop and publish approved policy, procedure and technology changes in the form of task guides, talking points and Salesforce Knowledge articles for use by the department to support consumers.

In addition to its core functions and ongoing initiatives listed above, Covered California University anticipates these key new strategies in the upcoming fiscal year:

- Finalize Covered California's division training plan, identifying mandatory courses, courses that meet California Department of Human Resources (CalHR) competency model standards, and courses identified by each Covered California division that support that program's skills and competencies.
- Identify specific organizational training that allow for growth and discovery related to Diversity, Equity and Inclusion. Ensure that the Diversity, Equity and Inclusion trainings help build a supportive, equitable and inclusive workplace.
- Participate in the Diversity, Equity, and Inclusion (DEI) Workgroup and actively engage in advancing its DEI work.
- Develop internal measures and feedback systems to evaluate Covered California University staff's key competencies and skill sets to match learning and development industry standards.
- Advance learning platforms and accessibility of training opportunities, including virtual training, throughout the organization to support a hybrid and inclusive workplace.
- Formalize organization change management communication strategy across all levels and develop a process to engage the organizational change-management program, in partnership with Information Technology's enterprise project management office.
- Research and determine requirements for an enterprise content-management system, improving the user experience and efficiency of Covered California University's internal processes.

Executive Office

Division Description

The Executive Office develops organizational strategy and provides leadership direction in concert with the Covered California Board of Directors. Executive Office staff are responsible for Covered California's day-to-day operations and are tasked with facilitating and supporting Covered California's employees and a broad community of individuals and groups to provide customers (including staff, the board, stakeholders and the public) with the direction, information, tools and support they need. The Executive Office does this by mentoring, providing leadership, listening, learning and adjusting efforts to meet goals and serve consumers.

Talent management and succession planning provides strategic talent leadership to ensure Covered California is considered an employer of choice and can attract, develop, retain and recognize the best talent.

Division Budget: Multi-Year View

| | Fiscal Year 2019-20 | Fiscal Year 2020-21 | Fiscal Year 2021-22 |
|---------------------------------|------------------------|------------------------|------------------------|
| | Actual | Approved Budget | Approved Budget |
| Positions | 9 | 11 | 11 |
| Personnel Expenses | \$ 2,548,801 | \$ 3,287,797 | \$ 3,217,457 |
| Other Operating Expenses | \$ 931,426 | \$ 714,676 | \$ 783,600 |
| Subtotal | \$ 3,480,227 | \$ 4,002,473 | \$ 4,001,057 |
| Allocated Expenses | | | |
| Information Technology | \$ 88,139 | \$ 134,373 | \$ 161,535 |
| Prorata/Supp. Pension/Other | \$ 165,582 | \$ 159,391 | \$ 188,022 |
| Total Operating Expenses | \$ 3,733,948 | \$ 4,296,237 | \$ 4,350,613 |

Highlights for Approved FY 2021-22 Budget and Key Changes

The Executive Office's personnel expenses decrease by \$70,000. This decrease results from the net effect of merit salary adjustments, the 2.5 percent general salary increase, and adjustments to the assumed vacancy rate.

The number of authorized permanent positions totals 11, which is unchanged from the FY 2020-21 approved budget¹⁸.

¹⁸ The Executive Office has five positions. These include the executive director, which has a budgeted monthly salary of \$41,935, the chief deputy executive director, Operations, which has a budgeted monthly salary of \$21,544; the chief deputy executive director, Program, which has a budgeted monthly salary of \$27,384; the chief deputy executive director and general counsel, which has a budgeted monthly salary of \$25,000; and the director of the

The Executive Office's other operating expenses increase by \$69,000. This increase represents the net effect of baseline adjustments and budget augmentations.

The Executive Office's baseline expenses decrease by \$81,000. This results from a decrease in executive coaching expenses, a decrease in leadership training expenses, and a decrease in guest speaker expenses. These decreases are offset by a budget augmentation in FY 2021-22 totaling \$150,000. This augmentation is part of a multi-year request to purchase consulting services to build out Covered California's diversity, equity and inclusion strategic plan.

Key Objectives for Fiscal Year 2021-22

The Executive Office will focus on the following core areas in FY 2021-22:

- Ensure organizational resilience and individual wellbeing efforts as we transition into a new normal in order to continue to successfully deliver on our mission.
- Explore new, and elevating current, efforts in assuring that a focus on fostering diversity, effective inclusion and equitable practices are part of hiring, training, communications and staff engagement processes.
- Perform employee engagement efforts, which are of the utmost importance given the department-wide move to telework. We will continue to explore new alternatives to further bolster our engagement efforts.

Administrative Services Division, which has a monthly salary of \$13,313. These salary totals do not reflect the 9.23 percent reduction associated with the Personal Leave Program implemented in July 2020. This information is reported in compliance with Government Code 100503, Section 2(A).

Equal Employment Opportunity Office

Division Description

The Equal Employment Opportunity Office is responsible for implementing, coordinating, and monitoring civil rights compliance for Covered California’s workforce and consumers. The Equal Employment Opportunity Office ensures that Covered California is compliant with federal and state laws regarding diversity, equity and accessibility. The office also partners with other program areas to develop initiatives that increase accessibility and foster diversity. It reports on appointments, brings issues of concern regarding equal employment opportunity to the executive director, and recommends appropriate action.

Division Budget: Multi-Year View

| | Fiscal Year 2019-20 | Fiscal Year 2020-21 | Fiscal Year 2021-22 |
|---------------------------------|------------------------|------------------------|------------------------|
| | Actual | Approved Budget | Approved Budget |
| Positions | 4 | 4 | 6 |
| Personnel Expenses | \$ 482,105 | \$ 531,118 | \$ 661,345 |
| Other Operating Expenses | \$ 172,127 | \$ 279,000 | \$ 253,000 |
| Subtotal | \$ 654,232 | \$ 810,118 | \$ 914,345 |
| Allocated Expenses | | | |
| Information Technology | \$ 39,173 | \$ 48,863 | \$ 88,110 |
| Prorata/Supp. Pension/Other | \$ 36,450 | \$ 37,183 | \$ 51,622 |
| Total Operating Expenses | \$ 729,855 | \$ 896,164 | \$ 1,054,077 |

Highlights for Approved FY 2021-22 Budget and Key Changes

The Equal Employment Opportunity Office’s personnel expenses increase by \$130,000. This results from the addition of two new permanent positions, merit salary adjustments, the 2.5 percent general salary increase and modifications to the vacancy rate.

The two staffing additions support the Office’s growing administrative and legal needs. These include supporting the expansion of the upward mobility program, conducting sexual harassment and reasonable accommodation training, and conducting internal investigations, addressing workplace conflicts, and participating in diversity, equity and inclusion strategies and initiatives.

The number of authorized permanent positions increases from four to six¹⁹.

The Equal Employment Opportunity Office's other operating expenses decrease by \$26,000. The net decrease is the result of reducing specific contracted training expenses by \$30,000, and a \$4,000 increase associated with general expenses for staff additions related to FY 2021-22 budget augmentations.

Key Objectives for Fiscal Year 2021-22

The Equal Employment Opportunity Office will focus on the following core areas in FY 2021-22:

- Supporting workplace transitions related to telework and a more flexible workplace, with special focus on disability access and Reasonable Accommodation.
- Update office operations to include new tools such as DocuSign and Workday applications, which can improve services and provide continuity for a remote workforce.
- Continue to support Covered California in the development of policies that foster accessibility, diversity, and equity in the workplace. Participate in the Diversity, Equity, and Inclusion Workgroup.
- Update and expand the Upward Mobility program.
- Update the departmental process for routing external (consumer) civil rights complaints.

¹⁹This division has one exempt position, the Equal Employment Opportunity officer, which is currently vacant. The monthly budgeted salary is \$7,442. This salary total does not reflect the 9.23 percent reduction associated with the Personal Leave Program implemented in July 2020. This information is reported in compliance with Government Code 100503, Section 2(A).

IV. Fiscal Year 2020-21 Budget Highlights and Projected Year-End Results

Fiscal year 2020-21 tested the ability of Covered California to meet its mission in the face of such unexpected events as a once-in-a-century public health emergency, an unprecedented rise in unemployment, and the sudden introduction of a major federal Affordable Care Act marketplace policy change with the passage of the American Rescue Plan. Covered California seized on both the challenges and opportunities these events represented by working to implement a successful open-enrollment period, instituting special-enrollment periods to accommodate individuals who lost jobs due to the pandemic, and implementing the newly established enhanced federal subsidies with another special-enrollment period launched in April of 2021. In addition, a major marketing initiative was launched to reach those who were uninsured or unsubsidized.

The COVID-19 global pandemic set in motion a national recession that resulted in immense job loss and devastating drops in the nation's gross domestic product (GDP). The GDP declined by 3.5 percent²⁰ from 2019 levels, while over 22 million individuals lost jobs during the pandemic²¹.

California saw its unemployment rate rise from 3.9 percent to 16.0 percent in just two months. In the face of the pandemic, California issued stay-at-home orders. Food establishments and most entertainment businesses were severely affected, and unemployment claims skyrocketed to record levels in California. The number of individuals infected rose exponentially, and by February 2021, more than 500,000 Americans had died²². The U.S. was struck with three waves that saw greater and greater numbers of individuals becoming infected throughout the fiscal year.

As the pandemic unfolded, Covered California's enrollment continued to rise instead of following the usual decline seen after the open-enrollment peak. Covered California enrollment generally peaks in March of each year following open enrollment. After March, a gradual decline in enrollment occurs as outflows exceed inflows until the ensuing open-enrollment period.

Individuals who lost employee-sponsored insurance transitioned to Covered California. During the 2020 open enrollment, Covered California recognized a 20 percent increase in enrollment prompted by the state subsidies and mandate, and then recognized additional increased enrollment between April and September 2020 as the pandemic affected the economy and individuals lost jobs or were furloughed. The pandemic and economic shock altered enrollment inflows to and outflows from Covered California. Increased inflows occurred among consumers losing employer-sponsored coverage. Enrollment into Covered California was somewhat muted by federal economic stimulus

²⁰ Bureau of Economic Affairs. [Gross Domestic Product, Fourth Quarter and Year 2020 \(Second Estimate\) | U.S. Bureau of Economic Analysis \(BEA\)](#).

²¹ Total nonfarm employment dropped from 152,523 to 130,161. [All Employees, Total Nonfarm \(PAYEMS\) | FRED | St. Louis Fed](#).

²² Johns Hopkins. COVID-19 United States Cases By County. <https://coronavirus.jhu.edu/us-map>.

legislation that provided employers with interest-free loans and workers with enhanced unemployment benefit payments.

On March 11, 2021, President Biden signed the American Rescue Plan into law. The American Rescue Plan provides massive fiscal stimulus that includes substantial increases in financial assistance to individuals seeking health care coverage from the exchanges. The bill provides enhanced assistance by:

- Allowing current marketplace enrollees with incomes between 200 and 400 percent of the federal poverty level (FPL) already receiving subsidies prior to the American Rescue Plan to receive increased subsidies.
- Providing subsidies for individuals with incomes above 400 percent of FPL that limit their premiums to more than 8.5 percent of their income.
- Enabling marketplace-eligible people who are receiving unemployment compensation to purchase insurance on the marketplace coverage for themselves and their dependents under a Silver plan with a \$0 premium. Household income above 133 percent of the FPL would not be considered in the calculation of the premium tax credit.

During FY 2020-21, Covered California instituted several policies and acted to ensure that Californians were able to secure affordable and accessible health care coverage during the economic downturn. In addition, in response to the American Rescue Plan, Covered California also began the work of making the necessary changes throughout the organization to facilitate and support enhanced subsidies. These actions and policies included:

- Investing an additional one-time \$40 million in marketing and outreach to ensure that consumers were well informed of available coverage options and could navigate into appropriate coverage.
- Establishing a COVID-19 special-enrollment period from March 20 to Aug. 31, which allowed any eligible uninsured individual to enroll. During this period, Covered California spent \$9 million on an ad campaign to spread the word to those who needed coverage during the crisis.
- Keeping employees safe and successfully transitioning its entire workforce into a telework environment, investing in technology to keep employees productive and maintaining quality service to our enrollees.
- Designing marketing campaigns for the American Rescue Plan's enhanced subsidies.
- Designing, modifying and implementing changes to CalHEERS to incorporate the new federal enhanced subsidy calculations.
- Developing training materials and training Navigators, agents and others on the enhanced federal subsidies.
- Enacting a special-enrollment period between April 12, 2021, through Dec. 31, 2021, so that uninsured and unsubsidized individuals could sign up for coverage on the exchange to take advantage of the enhanced federal subsidies.

Projected FY 2020-21 Year-End Results

The Covered California board-approved budget for FY 2020-21 was \$460.2 million, with \$440.2 million approved for operations and \$20.0 million approved for capital projects. This included 1,419 staff positions (Table 7: Covered California Board-Approved Operating, Capital Projects and Staffing Budgets for Fiscal Year 2020-21). These budget resources were provided to:

- Continue the state premium assistance program and the state-level individual health insurance mandate.
- Provide a better consumer experience to applicants and enrollees.
- Ensure that individuals losing jobs and employer-sponsored insurance during the pandemic were supported to select and enroll into affordable quality health coverage.
- Retain current enrollees and provide the tools to deliver on our mission.

Table 7
Covered California Board-Approved Operating, Capital Projects and Staffing Budgets for Fiscal Year 2020-21
(Dollars in Millions)

| | |
|--|-----------------------|
| Total Approved Operating Budget | \$440.2 |
| Total Approved Capital Projects Budget | <u>\$20.0</u> |
| Total Comprehensive Budget | <u>\$460.2</u> |
| | |
| Total Permanent Staff | <u>1,419</u> |

Covered California's FY 2020-21 approved budget assumed total operating revenues/other income of \$417.7 million and total operating expenses of \$440.2 million, which would result in a \$22.5 million decrease in net position. Covered California's forecasted financial outcome for FY 2020-21 projects that it will recognize an overall decrease in net position of \$35.6 million. The \$13.1 million unfavorable budget variance in operating results is driven by the net effect of lower than budgeted enrollment, lower than budgeted fee revenue per member, per month, and a favorable budget variance in personnel and other operating expenses.

Based on forecasts for the remainder of the fiscal year, it is estimated that Covered California's operating revenues and other income²³ will be \$39.5 million lower than budgeted. Exchange-based individual health plan enrollment is forecasted to be 96 percent of the projected mid-level enrollment. Total exchange-based individual revenues are forecasted to be 89 percent of their budgeted total. During the first half of the fiscal year (July to December), actual enrollment reached 102.9 percent of the levels forecasted in the budget, while in the second half of the year (January to June) enrollment is forecasted to achieve 90.1 percent of the levels projected in the budget.

²³ Non-operating income represents interest income earned on short-term investment held in the state of California Surplus Money Investment Fund (SMIF).

In the first half of the fiscal year, Covered California assumed that individuals would transition out of Covered California and into Medi-Cal as they lost jobs and recognized lower income. However, this did not occur as predicted. This resulted in higher than expected enrollment in the first half of the fiscal year, as individuals losing employer-sponsored insurance flowed in, while the outflows to Medi-Cal were muted. The lower than expected outflows were possibly the result of federal legislation that provided loans to small businesses and enhanced unemployment insurance that provided cash infusions to individuals. Lower enrollment relative to the budget during the second half of FY 2020-21 reflects lower than expected transitions from employer-sponsored insurance due to a faster economic recovery. The Department of Finance had initially projected unemployment of over 20 percent and a much longer period of recovery.

Per-member-per-month (PMPM) fee revenue is forecasted to average \$19.17 PMPM, which is \$1.47 PMPM less than the budgeted total of \$20.64 PMPM. The 7.1 percent differential is the product of the budget reflecting the projection that gross premiums would rise by 8 percent between calendar year 2020 and 2021; however, actual growth associated with the enrolled population equated to only 0.1 percent. An additional reason that revenue did not rise as much as enrollment was that many consumers switched from higher-cost plans to lower-cost plans to such an extent that it caused average monthly premiums to decrease.

Total operating expenses for FY 2020-21 are now projected to equal \$413.9 million, which is \$26.3 million less than the approved budget. Covered California is forecasted to recognize a favorable personnel expense variance of \$21.1 million. This favorable budget variance is the result of a statewide 9.23 percent salary reduction. Other operating expenses are forecasted to be \$5.2 million less than budgeted due to budgeted expenses not occurring or delayed. Overall, Covered California's net position is forecasted to decline by \$35.6 million, which is \$13.1 million greater than the budgeted decrease in net position of \$22.5 million (Table 8: Statement of Revenue, Expenses and Changes in Fund Net Position and Enrollment FY 2020-21 Actual/Forecasted and Variance Budgetary-Legal Basis of Accounting).

Table 8
Statement of Revenue, Expenses and Changes in Fund Net Position and Enrollment
FY 2020-21 Actual/Forecasted and Variance
Budgetary-Legal Basis of Accounting

| | <u>2020-21 Budget</u> | <u>Fiscal Year 2020-21 Forecast As of May 2021</u> | <u>Variance</u> |
|--|------------------------|--|------------------------|
| Member Months | | | |
| Average Monthly Enrollment-Individual Medical | 1,603,850 | 1,539,596 | (64,254) |
| Per-Member-Per-Month Individual Revenue | \$ 20.64 | \$ 19.17 | \$ (1.47) |
| Plan Individual - Medical - Total Member Months | 19,246,198 | 18,475,151 | (771,047) |
| Plan Individual - Dental - Total Member Months | 2,662,768 | 2,543,655 | (119,113) |
| Plan CCSB - Medical - Total Member Months | 702,615 | 840,434 | 137,819 |
| Operating Revenues | | | |
| Plan Assessments Individual - Medical | \$ 397,295,839 | \$ 354,152,365 | (43,143,474) |
| Plan Assessments Individual - Dental | \$ 1,932,771 | \$ 2,047,778 | 115,007 |
| Plan Assessments CCSB - Medical & Dental | \$ 17,594,281 | \$ 20,583,630 | 2,989,349 |
| Total Operating Revenues | \$ 416,822,891 | \$ 376,783,773 | \$ (40,039,118) |
| Operating Expenses | | | |
| Personnel Services | \$ 153,150,835 | \$ 132,080,635 | 21,070,200 |
| Other Operating Expenses | \$ 287,027,727 | \$ 281,775,944 | 5,251,783 |
| Total Operating Expenses | \$ 440,178,562 | \$ 413,856,579 | \$ 26,321,983 |
| Operating Income/(Loss) | \$ (23,355,671) | \$ (37,072,806) | (13,717,135) |
| Other Income - SMIF Interest | \$ 856,388 | \$ 1,446,310 | 589,922 |
| Overall Increase/(Decrease) In Net Position | \$ (22,499,283) | \$ (35,626,496) | \$ (13,127,213) |

V. Enrollment and Revenue Forecast

Introduction

The major sources of health care coverage in the United States include employer-sponsored insurance (large and small group), individual market (on- and off-exchange), Medicare, Medicaid, the Veterans Administration and TRICARE. The distribution of the U.S. population among these payers, as well as the percent of the population having any type of health care coverage at all, is sensitive to major changes in the economy and the labor market, and is responsive to state and federal health care policy initiatives designed to expand access and improve affordability.

The years between 2014, when Covered California first began enrolling consumers into health plans, and up to 2020 featured steady economic recovery from the 2007 Great Recession, gradually falling unemployment, and relatively few major health care policy changes. Attempts by the Republican Congress to repeal the Affordable Care Act in late 2017 failed, and actions by both the Congress and administration to weaken the law only modestly impacted Covered California enrollment, reflecting California's unwavering commitment to improving health care affordability. These adverse federal actions included reducing the federal tax penalty for not having health insurance to zero, as well as the decision by the administration in 2017 to stop paying cost-sharing reduction subsidies.

Since January 2020, Covered California's operating environment has been much more eventful and dynamic. In 2019, the California Legislature responded to the effective elimination of the federal health care mandate by passing its own state health care mandate, penalty and subsidy. California's subsidy, in particular, was designed to address the federal "subsidy cliff"²⁴ at 400 percent of the federal poverty level (FPL) by providing additional subsidies to individuals and households with incomes up to 600 percent FPL. After the new state subsidies and state mandate became effective in January 2020, Covered California experienced a dramatic increase in enrollment. Effectuated enrollment rose from 1,338,013 in January 2020 to 1,504,752 in April 2020.

In mid-March 2020, in response to surging numbers of COVID-19 infections and hospitalizations²⁵, the nation and the state of California implemented a series of stay-at-home restrictive measures directed at commercial establishments and other public gathering locations. These measures resulted in widespread business closures, particularly among establishments requiring close indoor physical interaction. California saw its unemployment rate rise from 3.9 percent to 16.0 percent in just two months.

Growth or weakness in the economy may cause individuals to move from one source of health care coverage to another. As layoffs mounted, many of the workers losing jobs also lost employer-sponsored insurance and sought replacement coverage. Many of

²⁴ The Affordable Care Act's "subsidy cliff" refers to the fact that prior to the passage of the American Rescue Plan, the federal premium subsidy (premium tax credit) eligibility for individuals purchasing their own health insurance in the Affordable Care Act marketplace stopped abruptly at a household income of 400 percent of the poverty level, resulting in a drastic increase in the individual contribution towards health insurance premiums.

²⁵ As of May 16, 2021, California had officially recorded 3.6 million COVID-19 cases, and 61,449 related deaths. <https://covid19.ca.gov/state-dashboard/>.

these individuals came to Covered California. Between April and September enrollment rose again, climbing from 1,504,752 to 1,551,009, another 3 percent increase.

The recession prompted by the COVID-19 pandemic affected the labor market very differently than did the 2007 Great Recession. During that time, the peak unemployment level arrived 27 months after the onset of the recession. The COVID-19-induced recession resulted in a sudden shock to the labor market, with the peak unemployment rate arriving only two months after the onset of recession. The 2020 recession resulted in much more joblessness for some industry sectors, such as leisure and hospitality, than for others. A key insight revealed by Covered California's modeling of the labor market impacts was that the hardest hit sectors were also among those with the lowest percentage of employees with an employer-sponsored plan, meaning that there were fewer unemployed workers losing their coverage than there were unemployed workers losing jobs overall.

Congress responded to the 2020 recession with more urgency, swiftness and resources than during prior recessions. The CARES Act²⁶ provided an additional \$600 per week in financial assistance to those receiving unemployment insurance. The CARES Act also included the Paycheck Protection Program (PPP), which provided loans to many businesses that enabled the hardest hit entities to continue providing health care coverage to their furloughed and temporarily idled employees.

Some individuals and households already enrolled in Covered California and experiencing unemployment or loss of income transitioned from the marketplace to Medi-Cal. Net outflows from Covered California to Medi-Cal were 2.6 times greater than the previous year. The enhanced unemployment insurance combined with marketplace subsidies, however, enabled many to meet their individual contribution for premiums and remain enrolled in Covered California.

The spring of 2021 presented a vastly different and much brighter picture in terms of the broad economic context. Just as fast as the unemployment rate rose in 2020, it appears to be declining in 2021. Effective COVID-19 vaccines were developed in record time. Today, just 15 months after the COVID-19 virus was identified in the U.S., more than 150 million Americans have been vaccinated. The economy appears poised for recovery. California, like many states, is beginning to lift stay-at-home orders, and in-classroom teaching is likely to resume in fall 2021. While there are potential threats to economic recovery, such as supply chain disruptions, labor shortages or a new COVID-19 variant striking the unvaccinated, it is expected that the state's economy will rebound.

Economists are now predicting stronger economic growth over the next 36 months, driven by pent-up savings, the resuming of service consumption back to pre-pandemic levels and robust housing sector activity. The spending is projected to surpass its 2019 peak by Q4 2021. California's labor market is forecasted to gradually recover during this period. The UCLA Anderson School forecasts California's unemployment rate to decline from an average of 7.7 percent in Q1 2021 to 6.1 percent in Q4 2021, 4.1 percent in Q4

²⁶ The Coronavirus Aid, Relief and Economic Security Act, also known as the CARES Act, was a \$2.2 trillion economic stimulus bill passed by the 116th U.S. Congress and signed into law by President Trump on March 27, 2020, in response to the economic fallout of the COVID-19 pandemic in the United States.

2022, and 4.0 percent in Q4 2023. The expectation is that California will be near the pre-pandemic unemployment rate by the end of 2023. The California Department of Finance provided a more conservative economic recovery forecast in the governor's budget, projecting a more gradual decline in California's unemployment rate to 6.6 percent by Q4 2023.

This year also introduces a major federal health care policy initiative that will directly affect Covered California enrollment by making health care coverage much more affordable for marketplace consumers. On March 11, President Biden signed the American Rescue Plan into law. The legislation not only provides massive fiscal stimulus that should add fuel for economic growth, but it also substantially increases financial assistance to individuals seeking health care coverage from the exchanges. The bill provides enhanced assistance to at least four groups:

- Under Section 9661 of the law, current marketplace enrollees with incomes between 200 and 400 percent of the federal poverty level (FPL) already receiving subsidies prior to the American Rescue Plan will see those subsidies increased (Table 9: Maximum Income Contribution by Household Income for Premium Tax Credits).
- Section 9661 also eliminated the subsidy cliff for individuals with incomes above 400 percent of FPL not previously eligible for subsidies, but who are now eligible under the American Rescue Plan, so long as their cost of coverage was not below 8.5 percent of their income (Table 9: Maximum Income Contribution by Household Income for Premium Tax Credits).
- Section 9501 required employers to extend offers of free COBRA coverage to certain individuals for the period from April 1, 2021, through Sept. 30, 2021. However, even when subsidized at 100 percent, COBRA may not be the best option for some individuals. The COBRA subsidy expires in September, and individuals who receive unemployment insurance benefits in 2021 qualify for a free marketplace plan with extremely low cost-sharing.
- Section 9663 is directed at individuals receiving unemployment compensation at any point in 2021. Under the American Rescue Plan, if a person is receiving unemployment compensation and is eligible to purchase insurance on the marketplace, they and their dependents can get a Silver plan with a \$0 premium. That is because any household income above 138 percent of the FPL would not be considered in the calculation of the premium tax credit.

Table 9
Maximum Income Contribution by Household Income for Premium Tax Credits

| Income as Percent of the Federal Poverty Level | Under the Affordable Care Act | Under the American Rescue Plan, Section 9661 |
|---|--------------------------------------|---|
| Under 100% | Not eligible for subsidies | Not eligible for subsidies |
| 100% – 138% | 2.07% | 0.00% |
| 138% – 150% | 3.10% – 4.14% | 0.00% |
| 150% – 200% | 4.14% – 6.52% | 0.0% – 2.0% |
| 200% – 250% | 6.52% – 8.33% | 2.0% – 4.0% |
| 250% – 300% | 8.33% – 9.83% | 4.0% – 6.0% |
| 300% – 400% | 9.83% | 6.0% – 8.5% |
| Over 400% | Not eligible for subsidies | 8.50% |

Source: American Rescue Plan Act: Health Coverage Provisions Explained, Georgetown University Health Policy Institute

Forecasting Strategy

Covered California’s enrollment projection incorporates three different analyses layered upon each other to develop a final all-inclusive forecast.

Stochastic Regression Model

The beginning stage and bottom layer of the forecast is a quantitative projection based on actual and historic enrollment trends projected forward into the future and assuming a relatively static environment. Covered California uses regression analysis to calculate the January share of annual new and renewal plan selections. After annual plan selections are calculated, the estimated effectuation rates for both annual new plan and renewal plan selections are applied using the experience of prior years, but weighted toward more recent years. Finally, enrollment is distributed for each month following historical seasonal enrollment and termination patterns to provide an estimated enrollment trend for the year.

Impact of Economic and Labor Market Changes

The second, or middle stage of the enrollment forecast is the labor market analysis. The United States has experienced three economic recessions and two economic recoveries in the past 20 years. These changes in the business cycle ripple through the labor market and may result in movement of individuals from one source of health care coverage to another. For Covered California, these transitions may result in enrollment inflows by certain groups and enrollment outflows by other groups.

To estimate these inflows and outflows, Covered California first develops a three-year industry sector-specific employment projection. Next, we utilize highly granular U.S. Department of Labor and Census Bureau data sets, such as the Current Population Survey (CPS), to simulate the impact of changes in employment on health care

coverage selection. The CPS microdata includes such information as the industry sector of employed individuals, income level, household size and source of health care coverage.

Covered California serves as the individual marketplace source of coverage for non-elderly individuals and households with incomes too high to qualify for Medicaid benefits, who are otherwise unable to obtain employer-based health care coverage.

During periods of economic weakness, Covered California may experience enrollment inflows from individuals losing employer-based coverage, and enrollment outflows from individuals whose incomes have fallen below the Medi-Cal threshold. Conversely, during periods of economic strength, Covered California may see enrollment inflows from individuals whose incomes have lifted them above the Medi-Cal threshold and from the previously uninsured, but see enrollment outflows of individuals finding jobs with employer-based coverage.

Covered California utilizes the results of prior studies that have measured the effect of subsidies and financial assistance on consumer health coverage purchase decisions to estimate take-up rates, which are estimates of the percentage of members of eligible groups who may respond to these inducements.

Impact of the American Rescue Plan

Finally, Covered California incorporates the impact of policy changes or program modifications designed to expand access or improve affordability, or both. This involves estimating the number of individuals who may be eligible to enroll in Covered California as result of the policy change or program modification, and then estimating the number of individuals within that universe willing to enroll in a health plan.

To estimate the additional enrollment resulting from the enhanced subsidies provided under the American Rescue Plan, Covered California used highly granular U.S. Census Bureau datasets to estimate the number of marketplace-eligible individuals from four populations to whom the American Rescue Plan's enhanced subsidies are directed:

1. The uninsured.
2. Those enrolled in individual market off-exchange plans.
3. Individuals receiving unemployment insurance who are uninsured.
4. Individuals receiving unemployment insurance with access to employer-sponsored insurance or COBRA coverage.

The American Rescue Plan did not eliminate the "family glitch," which makes workers and their dependents ineligible for marketplace subsidies if someone in the household has an offer of affordable employer-sponsored insurance, even if that coverage is only offered to the employee and not the dependents. We estimated and removed this population from the universe of potential enrollees.

Lastly, for the remaining universe of enrollees, Covered California applied the American Rescue Plan contribution curve to their estimated household income in order to calculate their individual contribution, and the subsidized portion as a percentage of premium, using the average Silver plan premium. Then, using the percentage of premium that is subsidized, Covered California applied a set of "willingness to pay"

assumptions to estimate the “take-up,” or percentage, of eligible individuals who would decide to enroll.

Willingness to pay is the maximum price at or below which a consumer will buy a product or a service. In the context of demand for health care services, willingness to pay focuses on the valuation of benefits by consumers and their maximum willingness to pay for it. The empirical application of this concept using historical administrative data is particularly useful for determining the take-up rates for means-tested benefit programs such as subsidized health insurance through a marketplace under the Affordable Care Act, and now under the enhanced subsidies provided in the American Rescue Plan of 2021.

Utilizing this methodology, Covered California anticipates that the American Rescue Plan’s enhanced federal subsidies will add a total of 266,000 new effectuated enrollees through plan years 2021 and 2022.

Individual Medical Enrollment Forecast

In 2020, as a result of the pandemic-induced recession, Covered California experienced an inflow of roughly 130,000 additional enrollees composed of unemployed workers seeking to replace lost employer-sponsored insurance. However, it also experienced net outflows to Medi-Cal and the ranks of the uninsured. Enrollment by those no longer eligible for Medi-Cal, typically more than 70,000 annually, stopped after Medi-Cal redeterminations were suspended due to the pandemic²⁷.

In 2021, as the economy recovers, the direction of enrollment inflows and outflows is set to reverse, although the velocity and timing of such a reversal is uncertain and dependent on the strength of the labor market recovery.

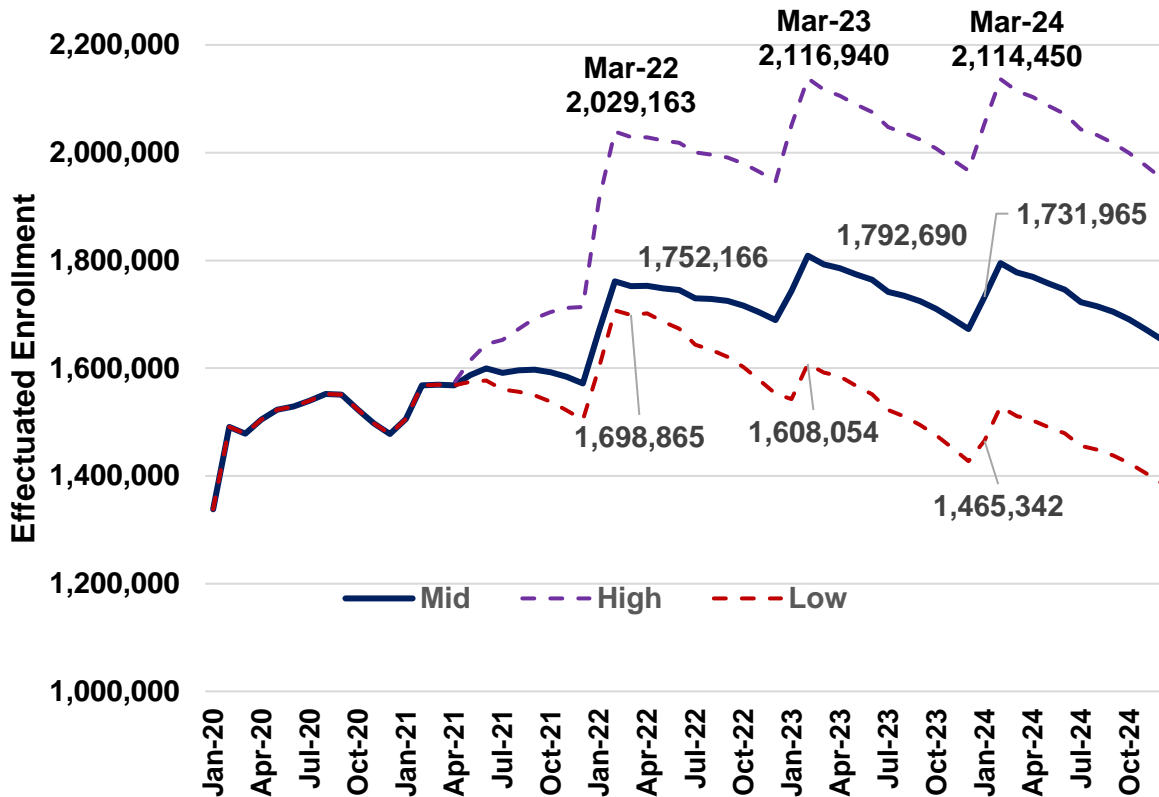
To derive the estimates below, Covered California utilized the Annual Social and Economic Supplement of the U.S. Census Bureau’s Current Population Survey to determine the impacts of the labor market recovery on the health coverage status for all California workers and family relatives. This information was used to extrapolate the resulting changes in health coverage to Covered California’s enrollment inflows and outflows by developing assumptions using internal membership survey instruments.

Because the future may hold an element of uncertainty, Covered California produces a “high” and “low” enrollment projection in addition to its mid-range estimate (Figure 3: Trend in Enrollment With Forecasted Levels at the High, Mid-Range and Low Forecast; FY 2018-19 Through FY 2023-24). The high and low forecasts reflect scenarios where the economic recovery is either stronger or weaker than expected, and the enhanced subsidies provided under the American Rescue Plan are either more successful or less successful in bringing additional consumers to Covered California health plans. In addition, both the mid-range and high forecasts assume that the enhanced subsidies under the American Rescue Plan are made permanent. While this policy has very little

²⁷ Department of Health Care Services, All County Welfare Director’s letter 20-08. <https://www.dhcs.ca.gov/services/medi-cal/eligibility/letters/Documents/l20-08.pdf>.

enrollment or financial impact to Covered California in FY 2021-22, it does have potentially substantial implications in future years.

Figure 3
Trend in Enrollment With Forecasted Levels at the High, Mid-Range and Low Forecast; FY 2018-19 Through FY 2023-24



Mid-Range Forecast

At the mid-range forecast, Covered California projects an average monthly enrollment of 1,663,421 in FY 2021-2022, which would be 7.7 percent greater than the 1,544,899 forecasted for FY 2020-21 (Table 10: Individual Medical Plan Enrollment Forecasts Effectuated Enrollment).

To incorporate the impact of the anticipated economic recovery, Covered California used the latest publicly available Economic Forecast of the California Department of Finance to benchmark the labor recovery in California. We next used the Annual Social and Economic Supplement of the Current Population Survey to determine the impacts of the labor market recovery on the health coverage and status for all Californian workers and their families. Finally, we extrapolated these changes in the source of

health coverage to Covered California's enrollment inflows and outflows by developing assumptions using internal membership survey instruments.

Under the mid-range forecast, the economic and labor market recovery triggers net enrollment losses due to outflows of enrollees obtaining jobs with large employers and transitioning to insurance through their workplace. However, these enrollment losses are more than offset by the enrollment boost that the American Rescue Plan's enhanced federal subsidies will provide. Covered California expects that the American Rescue Plan's enhanced federal subsidies will add a total of 266,000 new effectuated enrollees through plan years 2021 and 2022. Under the mid-range forecast, the American Rescue Plan's enhanced subsidies would contribute to a higher retention rate, further boosting and maintaining higher enrollment enticed by enhanced subsidies.

Under this scenario, Covered California assumes that half of the American Rescue Plan-induced new enrollment would occur in 2021 and that the American Rescue Plan's enhanced federal subsidies would be made permanent. The proposed American Families Plan Act would extend the expanded health insurance tax credits in the American Rescue Plan beyond 2022.

High Forecast

At the high forecast, Covered California projects an average monthly enrollment of 1,849,636 in FY 2021-2022, which would be 19.2 percent greater than the 1,551,342 forecasted for FY 2020-21 (Table 10: Individual Medical Plan Enrollment Forecasts Effectuated Enrollment).

Covered California prepared the high forecast using a more pessimistic economic recovery outlook than the projection developed by the California Department of Finance. The high forecast assumes a longer labor market recovery, similar to prior recessions. For instance, in the aftermath of the 2007 Great Recession, it took California's labor market more than six years to get back to nonfarm employment levels reported at the peak of the recession. Additionally, this more pessimistic economic outlook assumes a labor market recovery characterized by high levels of labor underutilization, meaning precarious wages and benefits for most of new jobs created.

Compared to the mid-range forecast, the high forecast anticipates larger net enrollment inflows in Covered California from 2021 to 2024. Two factors contribute to higher enrollment intakes: First, Covered California assumes that an economic recovery producing more low-wage than high-wage jobs and benefits would result in larger pools of Californians eligible for marketplace subsidies, and consequently, higher net enrollment intakes than in the mid-range forecast. Secondly, Covered California prepared the American Rescue Plan-induced enrollment estimates assuming larger take-up rates among the California population eligible for marketplace subsidies. Thus, the high forecast anticipates that the American Rescue Plan's enhanced federal subsidies would increase enrollment by 325,000 individuals. Additionally, like the mid-range forecast, this enrollment scenario assumes that half of the American Rescue Plan-induced new enrollment will occur early in 2021 and that the federal enhanced subsidies will be made permanent by Congress.

Low Forecast

At the low forecast, Covered California projects an average monthly enrollment of 1,608,104 in FY 2021-2022, which would be 4.3 percent greater than the 1,541,982 forecasted for FY 2020-2021 (Table 10: Individual Medical Plan Enrollment Forecasts Effectuated Enrollment).

The low forecast assumes the same economic and labor market scenario as the mid-range forecast (Department of Finance’s projections). It differs from the mid-range assessment, however, in its treatment of the enrollment impact of the American Rescue Plan’s enhanced subsidies. First, the low forecast assumes an enrollment take-up consistent with the more conservative Congressional Budget Office (CBO) estimates on the impact of the American Rescue Plan’s enhanced subsidies to the marketplace, adapted to California.

Secondly, under the low forecast, we assume that the majority of the American Rescue Plan-induced new enrollment will occur in plan year 2022; rather than 2021, resulting in a lower overall level of enrollment during the first half of the 2021-22 fiscal year. Lastly, the low forecast assumes that the American Rescue Plan’s enhanced federal subsidies will expire at the end of plan year 2022, and that when they do, Covered California will lose all the remainder of its American Rescue Plan new enrollment at the end of plan year 2023.

Table 10
Individual Medical Plan Enrollment Forecasts
Effectuated Enrollment
(Average Monthly Enrollment)

| Scenario | FY 2020-21 | FY 2021-22 | FY 2022-23 | FY 2023-24 |
|----------|------------|------------|------------|------------|
| High | 1,551,342 | 1,849,636 | 2,037,942 | 2,053,015 |
| Mid | 1,544,899 | 1,663,421 | 1,746,682 | 1,737,597 |
| Low | 1,541,982 | 1,608,104 | 1,589,810 | 1,488,176 |

Covered California Premium Projection

Covered California’s operating revenue is derived from assessment fees set at a fixed percent of each Covered California plan member’s monthly premiums. The individual market assessment fee is currently set at 3.25 percent of premium. If Covered California’s average monthly premium increases or decreases, the per-member-per-month dollar amount of the percent assessment fee will increase or decrease proportionally. For this reason, the projection of changes in premiums is a critical element of the overall process of projecting revenue.

When considering changes in premiums, it is also important to understand that the overall change in premiums is driven by two different processes. First, changes in premiums may occur as a result of increases in rates set by health insurance companies. These rates reflect changes in the overall prices for health care services.

Health plan rates are also influenced by the plan's assessment of the medical "risk" mix of the covered population. Over the years, health care payers have developed and refined risk adjustment methodologies that evaluate such variables as age, gender, diagnostic history and disability to develop a score that can be used to predict future costs.

The years 2020 and 2021 have featured the lowest premium rate increases in Covered California's history. Average rate increases announced by health insurance companies were 0.8 percent for plan year 2020, and 0.6 percent for plan year 2021. The historically low rate increases in 2020 reflected anticipation by health plan issuers of an influx of younger, healthier enrollees as result of California's state mandate, penalty and new subsidies. Increased competition among plans may also have been a moderating factor on overall health care premiums for consumers in Covered California. The low rate increases announced for 2021 resulted from the same factors, but in addition reflected large drops in the utilization of health care services and ambulatory care during the pandemic, reducing upward pressure on medical loss ratios.

Secondly, changes in the overall "average" monthly premium paid by Covered California's enrolled population may reflect changes in the underlying distribution of the enrolled population, by age, risk status, metal tier or among plans with higher or lower premiums. Actual premium growth was *negative* 2.9 percent in 2020 and up only by a slight 0.1 percent in 2021. As noted above in our discussion of the state subsidy program, policy changes that improve affordability and encourage enrollment by younger consumers may bring down average monthly premiums.

Additionally, Covered California's enrolled population displays a high degree of price sensitivity. Plan year 2020 saw significant shifts in enrollment from higher priced Silver plans to lower priced Silver plans. More than half of Covered California's members were enrolled in Silver plans during 2020. Likewise, there is evidence that the amount of individual contribution toward premium, not including subsidy, may influence metal tier selection.

For purposes of budget planning, Covered California's premium growth projection anticipates a gradual rise in premiums between 2021 and 2023. Average monthly premiums are projected to increase by 1 percent in plan year 2022, 5 percent in plan year 2023, and 5 percent in plan year 2024 (Table 11: Projected Premium Growth Rates: Individual Medical).

As more Californians are vaccinated, we anticipate medical services and ambulatory care utilization to return to pre-pandemic levels. Rising premiums may also result from anticipated increases in economy-wide inflation, as well as a return to somewhat higher growth rates for medical services as the rebounding economy drives increases in overall medical inflation. According to the Centers for Medicare and Medicaid Services (CMS), "National health spending is expected to increase over 2021-23 at an average rate of 5.4 percent compared to 5.2 percent anticipated for 2020. The acceleration is primarily explained by rising projected personal health care inflation, averaging 2.4 percent for the period — a rate closer to its average historical growth. This faster price

growth is driven in part by expected increases in wage growth for health care workers²⁸.”

Finally, as noted above, Covered California consumers are price sensitive. Because the American Rescue Plan’s enhanced subsidies result in lower individual contributions toward premiums, there is a possibility that a greater proportion of enrollees may select higher priced metal tier plans, driving up the average monthly premium.

Table 11
Projected Premium Growth Rates: Individual Medical

| Plan Year 2021 | Plan Year 2022 | Plan Year 2023 | Plan Year 2024 |
|----------------|----------------|----------------|----------------|
| Actual | Projected | Projected | Projected |
| 0.03 percent | 1.0 percent | 5.0 percent | 5.0 percent |

Individual Medical Revenue Forecast

Covered California proposes to have the assessment fee remain at 3.25 percent during plan year 2022, unchanged from 2021. At the mid-range forecast, individual medical premiums are expected to total \$370.8 million in FY 2021-22, \$401.3 million in FY 2022-23, and \$419.2 million in FY 2023-24. At the high forecast, individual medical premiums are expected to total \$412.8 million in FY 2021-22, \$468.3 million in FY 2022-23, and \$495.3 million in FY 2023-24. At the low forecast, individual medical premiums are expected to total \$358.5 million in FY 2021-22, \$365.3 million in FY 2022-23, and \$359 million in FY 2023-24 (Table 12: Individual Medical Plan Assessments).

Table 12
Individual Medical Plan Assessments

| Scenario | FY 2020-21 | FY 2021-22 | FY 2022-23 | FY 2023-24 |
|----------|---------------|---------------|---------------|---------------|
| High | \$356,641,211 | \$412,349,840 | \$468,276,804 | \$495,318,753 |
| Mid | \$355,213,567 | \$370,803,613 | \$401,340,989 | \$419,214,344 |
| Low | \$354,567,335 | \$358,469,160 | \$365,270,911 | \$359,030,004 |

Covered California’s Individual Dental Plans for Children and Families

Covered California offers individual dental plans for children and families. Children’s dental benefits are automatically included in the health plans offered through Covered California. For children who are insured by both a health plan and a family dental plan, the two plans will coordinate benefits. Dental coverage is not an essential health benefit for adults, however, so adult dental coverage is offered separately from health insurance plans.

²⁸ Centers for Medicare and Medicaid Services. “National Health Expenditure Projections 2019-2028, Forecast Summary.” Dec. 16, 2020. <https://www.cms.gov/files/document/nhe-projections-2019-2028-forecast-summary.pdf>.

Covered California offers two types of dental plans: HMO (health maintenance organization) plans and PPO (preferred provider organization) plans. The participating dental plans are:

1. Delta Dental of California
2. Blue Cross: Dental
3. Blue Shield California Physician's Services: Dental
4. Liberty Dental Plan of California
5. California Dental Network
6. Access Dental Plan of California
7. Dental Health Services
8. Guardian

The Covered California assessment fee for individual dental plans is the same for individual medical plans. It is currently 3.25 percent and is proposed to remain at 3.25 percent in 2022. Forecasted enrollment and estimated revenue from Individual Dental plans are presented below (Table 13: Individual Dental Plan Enrollment Forecasts Effectuated Enrollment, and Table 14: Individual Dental Plan Assessments).

Table 13
Individual Dental Plan Enrollment Forecasts
Effectuated Enrollment
(Average Monthly Enrollment)

| Scenario | FY 2020-21 | FY 2021-22 | FY 2022-23 | FY 2023-24 |
|----------|------------|------------|------------|------------|
| High | 213,343 | 240,842 | 264,687 | 266,546 |
| Mid | 212,492 | 216,184 | 226,726 | 225,526 |
| Low | 212,108 | 209,007 | 206,106 | 193,086 |

Individual Dental Revenue Forecast

Table 14
Individual Dental Plan Assessments

| Scenario | FY 2020-21 | FY 2021-22 | FY 2022-23 | FY 2023-24 |
|----------|-------------|-------------|-------------|-------------|
| High | \$2,058,189 | \$2,295,122 | \$2,596,232 | \$2,694,045 |
| Mid | \$2,050,287 | \$2,059,172 | \$2,223,881 | \$2,279,329 |
| Low | \$2,046,717 | \$1,906,024 | \$1,866,043 | \$1,801,155 |

Covered California for Small Business

Covered California for Small Business is California's version of the Small Business Health Options Program (also known as SHOP) established under the Affordable Care Act. It is a small-group health insurance program for employers with 100 or fewer employees who want to provide health or dental insurance to their employees.

Under the Affordable Care Act, the same essential set of regulations applied to the individual market are also applied to the small-group market. These include: no exclusion of preexisting conditions, modified community rating (meaning that insurers cannot vary rates based on health status), a standard set of essential health benefits, and a limit on the percentage of premium that insurers can devote to profits or overhead, known as a minimum "medical loss ratio."

Certain employers who offer insurance through Covered California for Small Business may be eligible for a federal tax credit. The maximum tax credit available is 50 percent of premium expenses as a for-profit employer. The maximum credit for tax-exempt employers is 35 percent. This credit applies to two consecutive tax years. To be eligible for the tax credit, the business must have fewer than 25 full-time equivalent employees, the employees must have an average annual wage of less than \$56,000 per year²⁹, and employers must contribute at least 50 percent of the cost of insurance coverage for each employee.

Covered California for Small Business is one of several sources of health insurance within California's small-group market, which is defined as insurance purchased by businesses with 100 or fewer full-time equivalent employees. California's small-group market is estimated to provide coverage for over 2.3 million covered lives. In 2018, Covered California for Small Business provided insurance for roughly 3 percent of the small-group market.

Covered California for Small Business offers plans from five health insurance companies and four dental insurance companies that are available to small employers for year-round enrollment. Employers can select from four medical tiers (Bronze, Silver, Gold and Platinum), allowing them to tailor health insurance to their employees' specific needs. Employers may purchase health insurance with the help of a registered agent or broker.

As of March 2021, there were 8,035 employer groups participating in Covered California for Small Business. The average number of covered employees per employer group was 8.4. Fifty-eight percent of the enrollees have selected a Platinum or Gold plan, while only 10 percent of enrollees are in a Bronze plan.

Average monthly medical enrollment for FY 2020-21 is forecast to be 64,867, an increase of over 6,100 members per month compared to FY 2019-20 when monthly medical enrollment averaged 58,710.

As these numbers suggest, enrollment in Covered California for Small Business plans remained remarkably resilient during the COVID-19 pandemic and resulting economic downturn. Medical plan enrollment increased month over month from June 2020

²⁹ This limit has been adjusted for inflation since 2014.

forward. The increase in enrollment may be due to several factors. First, most Covered California for Small Business employers were not in the industry and occupational sectors impacted the greatest by the pandemic. The Covered California for Small Business 2018 Customer Satisfaction Survey, for example, indicated that 41 percent of the employer groups were in “white-collar” industries, Professional Service, Technology, Education, Finance, Real Estate and Management. The industries hit the hardest due to the COVID-19 pandemic — Accommodations, Food Service, Entertainment and Recreation — represented only 7 percent of the employer groups.

A second factor may have been the federal assistance offered to small business. The Paycheck Protection Program (PPP) stimulus enacted by Congress in response to the COVID-19 economic shock was intended to help small businesses maintain employment and wages during the crisis. PPP lending exceeded \$500 billion over a brief two-month period. The PPP loans were designed to provide funds to small businesses to maintain their employment and wage rates similar to pre-crisis levels.

A study conducted by MIT estimated that the PPP boosted employment at eligible firms by 2.0 to 4.5 percent, with a preferred central tendency estimate of approximately 3.25 percent³⁰. The MIT estimates imply that the PPP increased aggregate U.S. employment by 1.4 million to 3.2 million jobs through the first week of June 2020, with a preferred central tendency estimate of about 2.3 million workers. According to Pro Publica, the Small Business Administration approved 1.18 million PPP loans in California³¹.

Covered California for Small Business Enrollment and Revenue Forecast

The FY 2021-22 enrollment and revenue forecasts for Covered California for Small Business assume a strong economic recovery from mid-year 2021 through 2023. Unlike the individual market, where a strongly recovering market may result in enrollment outflows to employer-sponsored insurance, the enrollment impact of a strong economy for the small group market is largely positive. Plans by Covered California to offer small business employer groups a wider array of metal tier plans may also attract new sales.

The assessment rate for Covered California for Small Business plans was 5.2 percent of the gross premiums in 2021. Covered California proposes that this assessment rate continue for plan year 2022 through 2024.

Under the mid-range forecast, premiums are projected to grow by 2 percent in plan year 2022, and by 5 percent in plan years 2023 and 2024 (Table 16: Covered California for Small Business Premium Growth).

At the mid-range forecast, Covered California projects an average monthly medical plan enrollment of 67,945 in FY 2021-2022, which would be 4.7 percent greater than the 64,867 forecasted for FY 2020-2021 (Table 15: Covered California for Small Business Enrollment Forecasts Medical Effectuated Enrollment). Under the mid-range forecast, medical plan revenue is projected to be \$22 million (Table 17: Covered California for

³⁰Autor, et al. “An Evaluation of the Paycheck Protection Program Using Administrative Payroll Microdata.” July 22, 2020. MIT Department of Economics.

³¹ Pro Publica. “Tracking PPP: Search Every Company Approved for Federal Loans.” July 7, 2020. Updated May 7, 2021. <https://projects.propublica.org/coronavirus/bailouts/>.

Small Business Mid-range Forecast Revenue). Covered California for Small Business dental plan average monthly enrollment is projected to be 5,598 members and dental plan revenue to total \$106,450.

At the high forecast, Covered California projects an average monthly medical plan enrollment of 70,218 in FY 2021-2022, which would be 8.2 percent greater than the 64,867 forecasted for FY 2020-2021 (Table 16: Covered California for Small Business Premium Growth). Under the high forecast, medical plan revenue is projected to be \$22.9 million. Dental plan average monthly enrollment is projected to be 5,606 members.

At the low forecast, Covered California projects an average monthly enrollment of 62,802 in FY 2021-2022, which would be 3.2 percent lower than the 64,867 forecasted for FY 2020-2021 (Table 16: Covered California for Small Business Premium Growth). Under the low forecast, medical plan revenue is projected to be \$20.7 million. Dental plan average monthly enrollment is projected to be 5,577 members.

Table 15
Covered California for Small Business Enrollment Forecasts
Medical Effectuated Enrollment
(Average Monthly Enrollment)

| Scenario | FY 2020-21 | FY 2021-22 | FY 2022-23 | FY 2023-24 |
|----------|------------|------------|------------|------------|
| High | 64,867 | 70,218 | 75,572 | 82,254 |
| Mid | 64,867 | 67,945 | 69,887 | 72,368 |
| Low | 64,867 | 62,802 | 58,656 | 57,819 |

Table 16
Covered California for Small Business Premium Growth

| Scenario | 2021 Plan Year | 2022 Plan Year | 2023 Plan Year | 2024 Plan Year |
|----------|----------------|----------------|----------------|----------------|
| High | 2.0% | 3.0% | 5.0% | 5.0% |
| Mid | 1.5% | 2.0% | 5.0% | 5.0% |
| Low | 1.0% | 1.0% | 5.0% | 5.0% |

Table 17
Covered California for Small Business Mid-range Forecast Revenue

| | FY 2020-21 | FY 2021-22 | FY 2022-23 | FY 2023-24 |
|--------------|---------------------|---------------------|---------------------|---------------------|
| Medical | \$20,583,630 | \$22,009,514 | \$23,439,713 | \$25,486,246 |
| Dental | \$101,442 | \$106,450 | \$114,266 | \$123,373 |
| COBRA | \$113,119 | \$101,807 | \$91,627 | \$82,464 |
| Total | \$20,798,191 | \$22,217,771 | \$23,645,605 | \$25,692,083 |

Total Operating Revenue

Table 18 presents total forecasted revenue under the mid-range estimates for Individual Medical, Individual Dental and Covered California Small Business combined.

Table 18
Assessment Fee Revenue

| Market | FY 2020-21 | FY 2021-22 | FY 2022-23 | FY 2023-24 |
|--|----------------------|----------------------|----------------------|----------------------|
| On-Exchange Individual Medical | \$354,152,365 | \$370,803,613 | \$401,340,989 | \$419,214,344 |
| Individual Dental | \$2,047,778 | \$2,059,172 | \$2,223,881 | \$2,279,329 |
| Covered California for Small Business | \$20,583,630 | \$22,217,771 | \$23,645,605 | \$25,692,083 |
| Total Assessment Fee Revenue | \$376,783,773 | \$395,080,556 | \$427,210,475 | \$447,185,756 |

VI. Multi-Year Projection: Fiscal Year 2021-22 to Fiscal Year 2023-24

Covered California's multi-year financial plan projects revenue and expenditures for three years into the future, spanning FY 2021-22 through FY 2023-24. The multi-year financial plan allows executives, the board and other stakeholders to see the implications of decisions made over time and consider a longer time horizon.

This multi-year financial projection helps policy makers evaluate expenditure commitments, enrollment trends and revenue trends. The multi-year financial plan also highlights anticipated fiscal risks and opportunities. The projection identifies significant known fiscal conditions and project future conditions. Finally, the multi-year projection is a strategic planning tool for fiscal sustainability.

The multi-year financial projection is not a budget and does not include any proposed balancing solutions or modified service levels. Instead, it is a planning tool for discovering opportunities and challenges over a longer time horizon.

Mid-Range Financial Projection Detail

The mid-range forecast incorporates the impact of net increases in enrollment due to the American Rescue Plan's enhanced federal subsidies and the recovering economy. The mid-range forecast assumes enrollment losses due to net outflows to employer-sponsored insurance. However, these outflows are more than offset by additional enrollment resulting from the American Rescue Plan's enhanced subsidies. In addition, it is assumed that there is a higher retention rate among the American Rescue Plan enrollees than historical experience. Finally, it is assumed that the American Rescue Plan is made permanent.

Additionally, it reflects estimates of increases in the average premiums of 1 percent in 2022, 5 percent in 2023, and 5 percent in 2024. Authorized permanent positions are assumed to remain at the FY 2021-22 budget total of 1,440 throughout the projection period.

The mid-range enrollment forecast assumes the assessment on individual market premiums to be 3.25 percent for 2022 and throughout the remainder of the projection period. Covered California for Small Business plan assessments are assumed to remain at a level of 5.2 percent of the premium for the duration of the forecast. The mid-range projection reflects a \$403.3 million operating budget in FY 2021-22. Operating expenses for FY 2022-23 and FY 2023-24 would increase slightly, growing by a compound annual growth rate of 2.1 percent over the projection period. Operating expenses are forecast to be \$411.8 million in FY 2022-23 and \$420.6 million in FY 2023-24. Under the mid-range forecast, individual medical plan average monthly enrollment is forecasted to be 1,663,421 in FY 2021-22, 1,746,682 in FY 2022-23, and 1,737,597 in FY 2023-24.

Revenues and other income are projected to be lower than operating expenditures in FY 2021-22. Covered California is projected to generate \$399.6 million in revenue/other income and \$403.3 million in operating expenses. This results in a projected net operating loss of \$3.7 million. Throughout the forecast period, Covered California's cash reserve is projected to fund at almost 10 months of budgeted operations (Table 19)

Table 19
Mid-Range
Covered California
Condensed Statement of Revenue, Expense, and Net Income/(Loss)
For FY 2020-21, FY 2021-22, FY 2022-23, and FY 2023-24

| | <u>FY 2021-22</u> <u>Approved Budget</u> | <u>FY 2022-23</u> <u>Projected Outcome</u> <u>at 2.5% CPI Growth</u> | <u>FY 2023-24</u> <u>Projected</u> <u>Outcome at 2.5%</u> <u>CPI Growth</u> |
|--|---|--|--|
| Assessment Fee | 3.25% | 3.25% | 3.25% |
| Projected Growth in Premiums | 1.0% | 5.0% | 5.0% |
| Projected Average Monthly Eligibles | 1,663,421 | 1,746,682 | 1,737,597 |
| Projected Total Member Months Indiv. Market | 19,961,054 | 20,960,189 | 20,851,159 |
| Projected Individual Market Fee PMPM | \$ 18.58 | \$ 19.15 | \$ 20.10 |
| | | | |
| Individual Market Operating Revenues (Med. & Dental) | \$ 372,862,785 | \$ 403,564,870 | \$ 421,493,673 |
| CCSB Operating Revenues | \$ 22,217,771 | \$ 23,645,605 | \$ 25,692,083 |
| Other Income | \$ 4,500,000 | \$ 2,500,000 | \$ 3,000,000 |
| Total Revenues | \$ 399,580,556 | \$ 429,710,475 | \$ 450,185,756 |
| Total Operating Expenses | \$ 403,321,177 | \$ 411,832,406 | \$ 420,556,414 |
| Net Operating Income (Loss) | \$ (3,740,621) | \$ 17,878,069 | \$ 29,629,342 |
| | | | |
| End of Year Cash Reserve Balance | \$ 339,157,204 | \$ 340,362,595 | \$ 352,902,442 |
| Months of Operations Funded With Cash Reserve | 9.9 | 9.7 | 10.1 |

In FY 2022-23, revenues/other income are projected to rise to \$429.7 million, while operating expenses rise to \$411.8 million. Operating expenses reflect a baseline growth of roughly 2.1 percent³². In FY 2022-23 Covered California is projected to recognize net income of \$17.9 million. Authorized positions are assumed to remain at the FY 2020-21 budgeted level of 1,440.

In FY 2023-24, revenues/other income are projected to rise to \$450.2 million, while operating expenses are projected to increase modestly to \$420.6 million, resulting in a projected net income of \$29.6 million. The modest increase in operating expenses is associated with general inflation and increases in personnel expenses. Authorized positions are assumed to remain at the FY 2020-21 budget level of 1,440.

Covered California is projected to end FY 2023-24 with a cash reserve totaling \$352.9 million, which would fund approximately 10.0 months of annual budgeted operations, while Covered California's capital projects cash balance is projected to total \$31.6 million (Table 20: Mid-Range Covered California Capital Projects Fund Balances).

Covered California is projected to end fiscal year 2023-24 with a capital projects fund balance of \$31.6 million (Table 21: Mid-Range Covered California Capital Projects Fund Balances).

³² The growth in operating expenses is less than the 2.5 percent, as adjustment were made for limiting the filling of vacant positions to only 75 percent of vacancies throughout the year.

Table 20
Mid-Range
Covered California Cash Reserve Balance
At June 30

| | <u>FY 2021-22</u> <u>Approved Budget</u> | <u>FY 2022-23</u> <u>Projected</u> <u>Outcome at 2.5%</u> <u>CPI Growth</u> | <u>FY 2023-24</u> <u>Projected</u> <u>Outcome at</u> <u>2.5% CPI</u> <u>Growth</u> |
|---|---|--|--|
| Cash Reserve Balance Beginning of Year | \$ 359,163,852 | \$ 339,157,204 | \$ 340,362,595 |
| Cash Increase / (Decrease) From Operations | \$ (3,740,621) | \$ 17,878,069 | \$ 29,629,342 |
| Operations | \$ - | \$ (16,672,678) | \$ (17,089,495) |
| Cash Reserve Transfer Out to Fund Capital Projects From Reserve Balance | \$ (16,266,027) | \$ - | \$ - |
| Cash Balance At End of Year | <u>\$ 339,157,204</u> | <u>\$ 340,362,595</u> | <u>\$ 352,902,442</u> |
| Months of Operations Funded With Cash Reserve | 9.9 | 9.7 | 10.1 |

Table 21
Mid-Range
Covered California Capital Projects Fund Balances

| | <u>FY 2021-22</u> <u>Approved Budget</u> | <u>FY 2022-23</u> <u>Projected</u> <u>Outcome at 2.5%</u> <u>CPI Growth</u> | <u>FY 2023-24</u> <u>Projected</u> <u>Outcome at</u> <u>2.5% CPI</u> <u>Growth</u> |
|---|---|--|--|
| Capital Projects Fund Beginning Balance | \$ 55,642,781 | \$ 47,642,781 | \$ 39,642,781 |
| Transfer-In From FY Operating Income/Cash Reserve | \$ 16,266,027 | \$ 16,672,678 | \$ 17,089,495 |
| Total Capital Projects Funds Available | \$ 71,908,808 | \$ 64,315,459 | \$ 56,732,276 |
| Capital Project Fund Expenditures for FY | \$ (24,266,027) | \$ (24,672,678) | \$ (25,089,495) |
| Ending Capital Projects Fund | <u>\$ 47,642,781</u> | <u>\$ 39,642,781</u> | <u>\$ 31,642,781</u> |
| Transfer - In From Cash Reserve Fund | \$ - | \$ - | \$ - |
| Ending Capital Projects Fund After Transfers-In Cash Reserve | <u>\$ 47,642,781</u> | <u>\$ 39,642,781</u> | <u>\$ 31,642,781</u> |

Low Financial Projection Detail

The low enrollment forecast reflects the uncertainty associated with the economic recovery and the pandemic. It assumes American Rescue Plan take-ups consistent with the more pessimistic Congressional Budget Office (CBO) forecast. The CBO assumes that almost all the take-up occurs in 2022 and is dampened by the temporary nature of the legislation. It assumes that the economy will experience a robust recovery, and the enhanced federal subsidies will expire at the end of 2022. A robust economic recovery would increase the outflows from Covered California into employee-sponsored insurance. While Covered California may recognize additional inflows from Medi-Cal, as individuals recognize higher incomes, it is forecasted that exits to employee-sponsored

insurance would offset the gains. The low forecast assumes that average monthly enrollment falls to 1,488,176 in the last fiscal year of the projection period.

This scenario includes increases in average premiums, including growth of 1 percent in 2022, 5 percent in 2023, and 5 percent in 2024. The plan assessment rate is assumed to be 3.25 percent and remains at 3.25 percent throughout the projection period. Covered California for Small Business (CCSB) plan assessments are assumed to remain at a level of 5.2 percent of the premium for the duration of the forecast. Authorized positions are assumed to remain at the FY 2020-21 budget total of 1,440 throughout the projection period.

In the low financial projection scenario, the multi-year projection estimates total revenues/other income of \$387.1 million in FY 2021-22, \$393.3 million in FY 2022-23, and \$389.5 million in FY 2023-24 (Table 22: Low Covered California Condensed Statement of Revenue, Expense, and Net Income/[Loss] For FY 2021-22, FY 2022-23, FY 2023-24).

Over the multi-year projection period under the low enrollment scenario — if there were no changes to the assessment fee or expenditures — Covered California’s cash reserve would be projected to drop from \$359.2 million to \$243.3 million. At \$243.3 million, Covered California would be able to fund roughly 6.9 months of budgeted annual operations (Table 24: Low Covered California Cash Reserve Balance at June 30). Under the low scenario, Covered California’s capital projects fund would end FY 2023-24 with a balance totaling \$31.6 million (Table 24: Low Covered California Capital Projects Fund Balances).

The low forecast presents a deteriorating financial condition, and Covered California would take deliberate actions to address these challenges before recognizing such significant impacts to its reserves and financial condition. First, Covered California monitors enrollment trends throughout the fiscal year. Using a rolling forecast, Covered California projects revenue trends as the enrollment data becomes available. This provides monthly feedback to allow course corrections. If enrollment levels fall below the mid-level forecast, Covered California would consider reducing operating expenses or modifying its assessment fee, or both. These decisions and specific interventions would be influenced by the projected future fiscal condition, taking into consideration future trends in premium growth, possible enrollment changes, and Covered California’s projected overall financial condition relative to risk.

Table 22
Low
Covered California
Condensed Statement of Revenue, Expense, and Net Income/(Loss)
For FY 2019-20, FY 2020-21, FY 2021-22, and FY 2022-23

| | <u>FY 2021-22 Approved Budget</u> | <u>FY 2022-23 Projected Outcome at 2.5% CPI Growth</u> | <u>FY 2023-24 Projected Outcome at 2.5% CPI Growth</u> |
|--|---------------------------------------|--|--|
| Assessment Fee | 3.25% | 3.25% | 3.25% |
| Projected Growth in Premiums | 1.0% | 5.0% | 5.0% |
| Projected Average Monthly Eligibles | 1,608,104 | 1,589,810 | 1,488,176 |
| Projected Total Member Months Indiv. Market | 19,297,249 | 19,077,720 | 17,858,117 |
| Projected Individual Market Fee PMPM | \$ 18.58 | \$ 19.15 | \$ 20.10 |
| Individual Market Operating Revenues (Med. & Dental) | \$ 360,375,184 | \$ 367,136,954 | \$ 360,831,159 |
| CCSB Operating Revenues | \$ 22,217,771 | \$ 23,645,605 | \$ 25,692,083 |
| Other Income | \$ 4,500,000 | \$ 2,500,000 | \$ 3,000,000 |
| Total Revenues | \$ 387,092,955 | \$ 393,282,559 | \$ 389,523,242 |
| Total Operating Expenses | \$ 403,321,177 | \$ 411,832,406 | \$ 420,556,414 |
| Net Operating Income (Loss) | \$ (16,228,222) | \$ (18,549,847) | \$ (31,033,172) |
| End of Year Cash Reserve Balance | \$ 326,669,603 | \$ 291,447,077 | \$ 243,324,410 |
| Months of Operations Funded With Cash Reserve | 9.5 | 8.3 | 6.9 |

Table 23
Low
Covered California Cash Reserve Balance
at June 30

| | <u>FY 2021-22 Approved Budget</u> | <u>FY 2022-23 Projected Outcome at 2.5% CPI Growth</u> | <u>FY 2023-24 Projected Outcome at 2.5% CPI Growth</u> |
|--|---|--|--|
| Cash Reserve Balance Beginning of Year | \$ 359,163,852 | \$ 326,669,603 | \$ 291,447,077 |
| Cash Increase / (Decrease) From Operations | \$ (16,228,222) | \$ (18,549,847) | \$ (31,033,172) |
| Cash Reserve Transfer-Out to Fund Capital Project From Current Yr Operations | \$ - | \$ - | \$ - |
| Cash Reserve Transfer-Out to Fund Capital Projects From Reserve Balance | \$ (16,266,027) | \$ (16,672,678) | \$ (17,089,495) |
| Cash Balance At End of Year | \$ 326,669,603 | \$ 291,447,077 | \$ 243,324,410 |
| Months of Operations Funded With Cash Reserve | 9.5 | 8.3 | \$ 6.9 |
| Operating Budget | \$ 411,832,406 | \$ 420,556,414 | \$ 420,556,414 |
| Months Funded | 12 | 12 | 12 |
| Projected Monthly Operating Expenses | \$ 34,319,367 | \$ 35,046,368 | \$ 35,046,368 |
| Months of Operations Funded With Cash Balance | 9.5 | 8.3 | \$ 6.9 |

Table 24
Low
Covered California Capital Projects Fund Balances

| | FY 2021-22 Approved Budget | FY 2022-23 Projected Outcome at 2.5% CPI Growth | FY 2023-24 Projected Outcome at 2.5% CPI Growth |
|---|----------------------------------|---|---|
| Capital Projects Fund Beginning Balance | \$ 55,642,781 | \$ 47,642,781 | \$ 39,642,781 |
| Transfer-In From FY Operating Income/Cash Reserve | \$ 16,266,027 | \$ 16,672,678 | \$ 17,089,495 |
| Total Capital Projects Funds Available | \$ 71,908,808 | \$ 64,315,459 | \$ 56,732,276 |
| Capital Project Fund Expenditures for FY | \$ (24,266,027) | \$ (24,672,678) | \$ (25,089,495) |
| Ending Capital Projects Fund | \$ 47,642,781 | \$ 39,642,781 | \$ 31,642,781 |

High Financial Projection Detail

The high enrollment forecast assumes a slow economic recovery, with job growth slowly coming back. In turn, individuals would not transition to employer-sponsored coverage as quickly as in the robust recovery scenario. Further, the high enrollment forecast assumes that the American Rescue Plan’s enhanced subsidies are made permanent, and these subsidies will result in a higher take-up among eligible individuals than in the mid-range forecast.

The high scenario includes increases in average premiums, including growth in gross premiums of 1 percent in 2022, 5 percent in 2023 and 5 percent in 2024.

The plan assessment rate is assumed to be 3.25 percent throughout the projection period. CCSB plan assessments are assumed to remain at a level of 5.2 percent of the premium for the duration of the forecast. Authorized permanent positions are assumed to remain at the FY 2021-22 budget total of 1,440 throughout the projection period.

The high scenario projects significant enrollment gains and an average monthly enrollment in FY 2021-22 of 1,849,636, 2,037,942 in FY 2022-23, and 2,053,015 in FY 2023-24. Under the high enrollment and financial projection scenario, the multi-year projection estimates assessment revenues/other income of \$441.4 million in FY 2021-22, \$497.1 million in FY 2022-23, and \$526.7 million in FY 2023-24 (Table 25: High Covered California Condensed Statement of Revenue, Expense, and Net Income/[Loss] For FY 2021-22, FY 2022-23, and FY 2023-24).

Under the high forecast, Covered California is projected to recognize an increase in its overall net position for fiscal years 2021-22, 2022-23, and 2023-24 of \$38.1 million, \$85.2 million, and \$106.1 million, respectively. Covered California’s cash reserves would fund 11.1 months of annual budgeted operations in FY 2021-22, 12.8 months in FY 2022-23, and 15.4 months in FY 2023-24 (Table 26: High Covered California Cash Reserve Balance at June 30).

Covered California’s cash position would be greatly enhanced under the high forecast. If Covered California experienced enrollment levels reflected in the high forecast, it would assess its financial position and make decisions that may affect both its revenues and

expenditures. It is likely additional expenses associated with the large enrollment increases would materialize. Also, given the increased revenue, a reduction of the assessment fee would be considered.

Covered California is projected to end fiscal year 2023-24 with a capital projects fund balance of \$31.6 million (Table 27: High Covered California Capital Projects Fund Balances).

Table 25
High
Covered California
Condensed Statement of Revenue, Expense, and Net Income/(Loss)
For FY 2019-20, FY 2020-21, FY 2021-22, and FY 2022-23

| | <u>FY 2021-22</u> <u>Approved Budget</u> | <u>FY 2022-23</u> <u>Projected Outcome</u> <u>at 2.5% CPI Growth</u> | <u>FY 2023-24</u> <u>Projected Outcome</u> <u>at 2.5% CPI Growth</u> |
|--|---|--|--|
| Assessment Fee | 3.25% | 3.25% | 3.25% |
| Projected Growth in Premiums | 1.0% | 5.0% | 5.0% |
| Projected Average Monthly Eligibles | 1,849,636 | 2,037,942 | 2,053,015 |
| Projected Total Member Months Indiv. Market | 22,195,631 | 24,455,305 | 24,636,180 |
| Projected Individual Market Fee PMPM | \$ 18.58 | \$ 19.15 | \$ 20.10 |
| Individual Market Operating Revenues (Med. & Dental) | \$ 414,644,962 | \$ 470,873,036 | \$ 498,012,798 |
| CCSB Operating Revenues | \$ 22,217,771 | \$ 23,645,605 | \$ 25,692,083 |
| Other Income | \$ 4,500,000 | \$ 2,500,000 | \$ 3,000,000 |
| Total Revenues | \$ 441,362,733 | \$ 497,018,641 | \$ 526,704,881 |
| Total Operating Expenses | \$ 403,321,177 | \$ 411,832,406 | \$ 420,556,414 |
| Net Operating Income (Loss) | \$ 38,041,556 | \$ 85,186,235 | \$ 106,148,467 |
| End of Year Cash Reserve Balance | \$ 380,939,381 | \$ 449,452,939 | \$ 538,511,911 |
| Months of Operations Funded With Cash Reserve | 11.1 | 12.8 | 15.4 |

Table 26
High
Covered California Cash Reserve Balance
At June 30

| | FY 2021-22 Approved Budget | FY 2022-23 Projected Outcome at 2.5% CPI Growth | FY 2023-24 Projected Outcome at 2.5% CPI Growth |
|--|----------------------------------|---|---|
| Cash Reserve Balance Beginning of Year | \$ 359,163,852 | \$ 380,939,381 | \$ 449,452,939 |
| Cash Increase / (Decrease) From Operations | \$ 38,041,556 | \$ 85,186,235 | \$ 106,148,467 |
| Cash Reserve Transfer Out to Fund Capital Project From Current Yr Operations | \$ (16,266,027) | \$ (16,672,678) | \$ (17,089,495) |
| Cash Reserve Transfer Out to Fund Capital Projects From Reserve Balance | \$ - | \$ - | \$ - |
| Cash Balance At End of Year | <u>\$ 380,939,381</u> | <u>\$ 449,452,939</u> | <u>\$ 538,511,911</u> |
| Months of Operations Funded With Cash Reserve | 11.1 | 12.8 | \$ 15.4 |

Table 27
High
Covered California Capital Projects Fund Balances

| | FY 2021-22 Approved Budget | FY 2022-23 Projected Outcome at 2.5% CPI Growth | FY 2023-24 Projected Outcome at 2.5% CPI Growth |
|---|----------------------------------|---|---|
| Capital Projects Fund Beginning Balance | \$ 55,642,781 | \$ 47,642,781 | \$ 39,642,781 |
| Transfer-In From FY Operating Income/Cash Reserve | \$ 16,266,027 | \$ 16,672,678 | \$ 17,089,495 |
| Total Capital Projects Funds Available | \$ 71,908,808 | \$ 64,315,459 | \$ 56,732,276 |
| Capital Project Fund Expenditures for FY | \$ 24,266,027 | \$ 24,672,678 | \$ 25,089,495 |
| Ending Capital Projects Fund Before | <u>\$ 47,642,781</u> | <u>\$ 39,642,781</u> | <u>\$ 31,642,781</u> |

Appendix: Vision, Mission and Strategic Priorities

Covered California’s mission is to improve health care quality, lower costs and reduce health disparities through an innovative, competitive marketplace that empowers consumers to choose the health plan and providers that give them the best value. The broader context for that mission is a vision adopted by the Board of Directors for Covered California to improve the health of all Californians by assuring their access to affordable, high-quality care.

Covered California’s annual budget reflects on how the organization addresses five key strategic priorities. The budget is built on a comprehensive planning process, which is governed by the strategic priorities that help guide the organization’s allocation of resources. Covered California’s strategic priorities were designed by the agency’s management team and reviewed by the board to assist the organization while making decisions, setting priorities, determining initiatives and preparing annual budgets.

Covered California Strategic Priorities and Cross-Cutting Initiatives

| AFFORDABLE PLANS | NEEDED CARE | EFFECTIVE OUTREACH AND EDUCATION | POSITIVE CONSUMER EXPERIENCE | ORGANIZATIONAL EXCELLENCE |
|---|---|---|---|---|
| Consumers purchase and keep Covered California products based on their perception that this is a good value for them. | Consumers receive the right care at the right time. | Consumers understand what we offer and have a positive attitude about Covered California. | Consumers have a positive experience from initial enrollment to keeping their coverage. | Covered California has the right tools, processes, and resources to support our team to deliver on our mission. |

CROSS-CUTTING AREAS OF ATTENTION

- Innovating for the long term and being nimble in the present.
- Using Covered California’s experience to inform policy in California and nationally.
- Working with others to promote changes in care delivery that benefits all Californians.

The strategic priorities and how those strategies are broadly addressed are:

Affordable plans: Consumers purchase and keep Covered California products based on their understanding of how their coverage is a good value for them. The Affordable Plans strategic priority is reflected in Covered California as such:

- Actively negotiating rates and benefits with health insurance companies to provide consumers with the best value.
- Investing in marketing and outreach to promote the value of coverage and to maintain a healthy risk mix.

- Offering patient-centered benefit designs to make care more affordable by increasing a consumer’s understanding of benefits that maximize access to appropriate care.

Staying healthy and getting needed care: Consumers receive the right care at the right time.

- Working with all contracted qualified health plan issuers, in every corner of the state, to ensure consumers have ready access to doctors, hospitals and care.
- Holding health insurance companies accountable for improving the care delivered, addressing disparities of care, and moving to a patient-centered system that rewards quality and value, rather than being rewarded for quantity only.

Effective outreach and education: Consumers understand what we offer and have a positive attitude about Covered California.

- Making significant investments in marketing and outreach to motivate consumers to enroll and maintain their insurance coverage.
- Educating and supporting Covered California’s 20,000 sales partners in order to promote enrollment and increase the number of insured Californians.

Positive consumer experience: Consumers have a positive experience from initial enrollment to keeping their coverage.

- Continuously surveying consumers and testing messages and materials to be sure complex health insurance and coverage issues are clearly communicated.
- Operating and staffing service centers and working with 20,000 Licensed Insurance Agents, certified enrollers and Navigators to assist consumers in a variety of languages.
- Establishing an Ombuds Office and support for consumers seeking resolution of problems to have issues addressed at the lowest possible level.

Organizational excellence: Covered California has the right tools, processes, and resources to support its team to deliver on its mission.

- Operating as a fiscally sound, nimble enterprise that responds quickly to the changing environment in health care.
- Supporting its staff with training, tools, automation and opportunities for growth and working across divisions.

These five pillars are supported and complemented by the following cross-cutting initiatives:

Innovating for the long term and being nimble in the present.

- Consumer journey mapping will inform efforts to continue to build consumer trust and loyalty, increase consumer growth and retention, elevate Covered California’s brand and facilitate a transparent and aligned model of operational excellence.

- A consolidated enterprise information-technology backup and disaster recovery solution will be easier to manage and meet business continuity objectives in the event of a disaster.

Using Covered California's experience to inform policy in California and nationally.

- Covered California has worked with stakeholders and economists to develop options to improve affordability for low- and middle-income consumers and increase the number of people insured in the state. Covered California will build on the work reflected in the report "[Options to Improve Affordability in California's Individual Health Insurance Market](#)" to examine how consumers would benefit from different approaches, as well as the costs required and their impact on the individual market.
- Covered California actively seeks opportunities to contribute to the policy-making discussions in California and Washington D.C. by sharing our experiences and analysis of how policy issues could affect the individual market and health care costs and quality more broadly.
- Covered California learns from and shares its experiences with other state-based marketplaces, academic institutions and private and public partners to practice evidence-based policy development.

Working in partnership with others to promote changes in care delivery that benefit all Californians.

- Expanding program oversight of quality standards and increasing engagement with health plans to develop programs that will improve the delivery and quality of health care to our consumers.
- Covered California has interviewed national and state purchasers to consider how its contractual expectations of health plans can be aligned with others to promote more rapid and targeted changes in the delivery system to foster quality improvement and cost reductions.