A Public-Private Partnership for Health Care For All Marylanders: Cost and Coverage Impacts Analysis

Final Report

prepared for:

Maryland Citizens' Health Initiative Education Fund, Inc

by:

The Lewin Group

October 28, 2003

I. PROPOSAL FEATURES

The program would expand and create programs to cover uninsured people while also creating a requirement that all employers contribute at least a specified percentage of payroll (e.g., 4.5 percent) on health benefits for their workforce. The proposal also expands the small group market to include individuals and firms with up to 100 employees and requires insurers to provide a minimum standard benefits package with guaranteed issue and premiums that can not vary with the health status of individuals. Together, these provisions are designed to provide "comprehensive and affordable" coverage to all uninsured Marylanders.

The key provisions of the program are presented in the following sections:

- Employer responsibility;
- Worker responsibility;
- Expand small group insurance market;
- Coverage of children;
- Medicaid expansion for Parents;
- The Maryland Care (MdCare) program;
- Penalties for remaining uninsured;
- Other Cost Containment and quality Improvement Initiatives; and
- Program Funding.

A. Employer Responsibility

- All employers are required to pay a payroll tax on earnings as follows:
  - The payroll tax rate for firms with less than 10,000 workers in Maryland would start at 4.5 percent in the first year of the program and increase to up to 5.98 percent as required to fund the program.
  - For firms with 10,000 or more workers, the payroll tax would be 8.0 percent.
  - Earnings are taxed up to the social security maximum taxable earnings amount (currently $87,000).
  - The tax does not apply to wages for workers covered under Medicare and/or Medicaid.
- Employers receive a credit up to the amount of their tax payment for all health expenditures that are deductible for federal tax purposes as defined by the Internal Revenue Service (IRS), including spending for workers, dependents and retirees.
  - Tax payments for firms that do not provide coverage are used to fund the program.
  - For insuring firms, tax payments in excess of health expenditures (i.e., credited amounts) are retained by the state to fund the program.

- A supplemental tax credit is provided to state and local government health benefits programs to cover the cost of increased enrollment among currently eligible workers in response to the newly created penalties for going without insurance.
- There is no minimum benefits package required of employers. However, the proposal includes provisions that would cause most employers to offer at least the Maryland Comprehensive Standard Health Benefits Plan (CSHBP), designed and monitored by the Maryland Health Care Commission. These provisions include:
  - Insurance markets are reformed so that all fully-insured health plans in the state must be at least as comprehensive as the CSHBP.
  - Workers living above 350 percent of the federal poverty level (FPL) need to show that they have at least the CSHBP benefits package or pay a tax penalty of $600 for individuals and $2,600 for families (discussed below). Most insuring employers are expected to respond by providing at least this level of coverage so that their workers are not required to pay the tax penalty.

B. Worker Responsibility

- Workers are not required to take coverage when offered.
- Workers with incomes below 350 percent of the federal poverty level (FPL) can apply for coverage under the MdCare program (discussed below).
- Workers qualify for MdCare only if they are not offered a "comprehensive and affordable" health plan by their employer. An employer health plan is considered comprehensive and affordable if:
  - The employer plan benefits package is at least as comprehensive as the CSHBP (discussed below);
  - The worker premium contribution is less than 3.0 percent of family income for individuals or 6.0 percent of family income for workers with family coverage.
- To be eligible, individuals must have been uninsured six months prior to passage of the MdCare legislation. This is so that employers and individuals do not drop coverage just so they can become eligible for subsidized coverage under MdCare.
- Currently insured workers can become eligible if they are laid-off or they change to an employer that does not offer coverage.

C. Expand Small Group Insurance Market

- The small group market (i.e., firms with under 50 workers) is expanded to include:
  - All Businesses with 100 or fewer workers;
  - All uninsured Marylanders with family incomes above 350 percent of the FPL; and
  - People currently insured in the individual market.

- Each plan sold in the small group market would be required to provide at least the CSHBP benefits.
- Health insurance policies are required to be sold under the following conditions:
  - Guaranteed issue for eligible people regardless of health condition;
  - Guaranteed renewal; and
  - No pre-existing condition limitation.
- Plans must use "modified community rating" with premiums adjusted only by:
  - Age;
  - Family status;
  - Geography; and
  - Rating band of +/- 40 percent.

D. Coverage for Children

- Parents and guardians are required to obtain insurance for their children (children under age 19).
- Uninsured children may be enrolled in the Maryland Children's Health Care Program (MCHP) (i.e., the Maryland SCHIP program) if a comprehensive and affordable plan is not available from an employer or in the small group market.
- A plan is considered to be "comprehensive and affordable" if :
  - The plan provides at least the CSHBP benefits; and
  - The premium that the family is required to pay (i.e., worker share in employer plan or full premium in small group market) is less than 3.0 percent of family income for individuals or 6.0 percent of family income for families.
- Enrollees would have the same benefits package provided in the current MCHP program.
- Premiums for participating families would be as follows:
  - Premium phased-in with income for families between 200 percent and 400 percent of the FPL; and
  - Full premium for families above 400 percent of the FPL.
- The plan would charge a single premium to each family with one or more children based upon average costs for children per family in the current MCHP program.
- The cost of the MCHP coverage for people between 300 percent and 400 percent of the FPL (i.e., program costs less premiums paid) would receive a federal match at the standard matching rate for Maryland (i.e., 50 percent). We assume that the state has exhausted its SCHIP allotment, which is provided at an enhanced federal matching rate of about 65 percent.

E. Medicaid Expansion

- The state would amend its Medicaid program to exercise the state's option to cover all parents and caretaker relatives with custodial responsibility for children through 200 percent of the FPL. The state has the option of doing so under the current program. Eligibility would be restricted to only parents with children enrolled in MCHP.
- The federal government would pay half of the cost of covering these parents under Medicaid.
- A waiver would be obtained so that these newly eligible parents can be covered under the MdCare program described above while still receiving the federal matching funds for these newly eligible people.
- The MdCare program would automatically refer income eligible people to Medicaid.
- Medicaid payment rates for services regulated by the Maryland Health Services Cost Review Commission (HSCRC) would continue to be determined through the states "all-payer" system.
- Medicaid Funding for the current program would be increased by $200 million. (Funded with $100 million increase in tobacco taxes and a federal match of about $100 million.) These funds would be used to:
  - — Role back the cuts in spending under the MCHP program during the last year (i.e., frozen enrollment over 200 percent of the FPL; and new premiums for people between 185 percent and 200 percent of the FPL).
  - — The remainder would be used to increase reimbursement for non-HSCRC regulated providers to encourage provider participation in Medicaid.
- The program would be administered by the Maryland Health Insurance Plan.

F. The Maryland Care (MdCare) Program

1. Program Eligibility

- Uninsured adults with family incomes below 350 percent of the FPL would be enrolled in the newly created MdCare program if:
  - — Their employer or spouse's employer does not offer them comprehensive and affordable coverage (i.e., at least the CSHBP package with premiums below 3.0 percent of family income for individuals or 6.0 percent of family income for families); and
  - — They were uninsured six months prior to passage of the legislation. This rule is waived for currently insured workers if they are laid-off or they change to an employer that does not offer comprehensive and affordable coverage.
- Other eligibility provisions include:

— The waiting period requirements are waived for workers who lose coverage due to layoff or job change;

— The program would cover only adults because all uninsured children would be covered under the MCHP program;

— Adults who are eligible for the expanded Medicaid program are transferred to Medicaid as discussed below;

- Currently insured people are not eligible for MdCare even if such coverage would be more comprehensive and/or less costly than their current coverage.

2. Type of Health Coverage Offered

- Participants would be covered under a MdCare benefits package (Covered services and co-payments are presented below).

— The MdCare benefits package is based upon the CSHBP, with several additional benefits including preventive care, prescription drugs and other services listed below.

— It has cost-sharing for health services that varies with the income of the beneficiary.

- MdCare would be a quasi-public health insurer that would process claims for services provided to covered people. Provider payments would be determined as follows:

— Hospitals and physicians would be paid on a fee-for-service basis;

— The Maryland all-payer system administered by HSCRC would continue to set the rates that would be paid to hospitals. There would be an automatic reduction in hospital rates for all payers including MdCare based upon the reduction in uncompensated care under the coverage expansion; and

— Physicians and other non-HSCRC regulated providers would be paid on the basis of Medicare payment rates for comparable services.

- Managed care plans would not be used and people would be permitted to select their own providers. The MdCare program would adopt certain care management practices including:

— Disease management;

— Coordination of care;

— Primary care model with specialist referral requirements (discussed below);

— Quality improvement;

— Management initiatives; and

— Cost containment initiatives.

3. MdCare Covered Health Services

- Benefits package based upon CSHBP package with additional benefits.

- Covered services. Services marked with asterisk are in addition to those currently included in the CSHBP.
  - — Primary Care Services;
  - — Ambulance Service;
  - — Blood and Blood Products;
  - — Case Management Program (for medically complex and costly services);
  - — Chiropractic Services (up to 20 visits per condition; 30 percent co-payment);
  - — Dental Services (preventive without cost sharing); *
  - — Durable Medical Equipment;
  - — Emergency Room ($35 co-payment);
  - — Family Planning Services;
  - — Hearing Aids; *
  - — Home Health Care (as alternative to hospitalization);
  - — Hospice;
  - — Hospitalization;
  - — Infertility Services (except *in vitro*; 50 percent coinsurance after diagnosis);
  - — Medical Food;
  - — Mental Health (at parity with physical health) and Substance Abuse;
  - — Nutritional Services (six visits per condition);
  - — Outpatient Hospital ($10 co-payment per visit);
  - — Outpatient Laboratory & Diagnostic Services ($10 co-payment);
  - — Outpatient Short-term Rehabilitative Services (30 physical therapy visits per condition; 30 speech therapy visits per condition; 30 occupational therapy visits per condition; $10 co-payment per visit);
  - — Pregnancy and Maternity;
  - — Prescription drugs (Co-payments as described below);
  - — Preventive services;
  - — Skilled Nursing Facility (100 days as alternative to hospitalization; $20 per-day co-payment);
  - — Smoking Cessation; * and
  - — Transplants.
- There would be point-of-service cost-sharing under the plan as follows:
  - — There is no cost sharing for families with incomes below 200 percent of the FPL (i.e., MdCare cost-sharing for people living below 200 percent of the FPL would be the same as under the Medicaid program for people with similar incomes, which effectively means that there is no cost-sharing below 200 percent of the FPL; and
  - — For families above 200 percent of the FPL, there would be a $200 deductible, $10 co-payments on outpatient services and 20 percent coinsurance on prescription drugs.
- As discussed below, specialist services provided without a primary care provider referral are not covered.

4. MdCare Premiums

- Premiums are computed for each individual adult as follows:

- No premiums for people below 200 percent of the FPL;
- At 200 percent of the FPL, per-adult premium is equal to 1.75 percent of family income;
- The per adult premium percentage increases with income from 1.75 percent of family income at 200 percent of the FPL to 2.5 percent of family income at 350 percent of the FPL (i.e., the premium as a percentage of family income increases by 0.005 percentage points for each percentage point increase in family income relative to the FPL); and

- Adults above 350 percent of the FPL are not eligible for MdCare.

5. Care Management under MdCare

- The program would include a primary care "gatekeeper" model designed to improve management of care while avoiding unnecessary use of specialty and other health services.
- All people covered under MdCare would be required to declare a primary care provider (PCP) within 6 months of enrollment.
  - People with Chronic Health Conditions can select a specialist to be their PCP;
  - Physicians must meet certain standards to be a PCP; and
  - PCPs are paid for care management services.
- Charges for specialty care services provided without referral from a PCP would not be covered.
  - Emergent care is exempt from referral requirement; and
  - Women will have direct access to one Ob/Gyn on a non-referral basis.

G. Penalties for Not Taking Insurance Coverage

- Adults with incomes above 350 percent of the FPL must take insurance, either from their employer or in the small group market, or pay a tax penalty of $600 for individuals or $2,600 for families.
- Adults living below 350 percent of the FPL who are uninsured would be required to pay a tax penalty equal to the amount they would have paid in premiums to be covered under the MdCare program.
- Parents of uninsured children living above 200 percent of the FPL would pay a tax penalty equal to the premium they would have paid to cover the children under MCHP.
- There would be no tax penalty for people who would not have been required to pay a premium under the program. This includes:
  - Adults living below 200 percent of the FPL would pay no tax penalty because they would not have been required to pay a premium.
  - Parents living below 200 percent of the FPL would pay no tax penalty for uninsured children because they would not have been required to pay a premium under MCHP. (Parents already pay a premium under MCHP if they have incomes between 200 percent

and 300 percent of the FPL. The MCHP expansion would create a sliding scale premium for children over 300 percent of the FPL.)

H. Other Cost Containment and Quality Improvement Initiatives

- Provider credentialing;
- Additional quality based provider payments as quality improvement incentive;
- Create an electronic care management system;
- Provider led quality improvement and accountability framework;
- Organized statewide system for Comprehensive Care Management and Beneficiary Access;
- Assessment of new technologies, coverage decisions and clinical trials;

I. Program Funding Sources

- Employer payroll tax collections including:
  - Payroll tax payments for firms that do not provide insurance; and
  - Payroll taxes for insuring firms in excess of health expenditures (i.e., the credit amount).
- Tobacco tax increase of $0.50 per pack, with proportional increase in taxes on other tobacco products to enhance funding for the current Medicaid program (estimated to be $100 million).
- The increase in state funding for the existing Medicaid program (i.e., $100 tobacco tax increase) would be matched with federal funding of $100 million.
- The state would receive federal matching funds for the expansion in Medicaid for parents below 200 percent of the FPL.
- Hospital assessment revenues for the planned Maryland Health Insurance Plan (MHIP) high-risk pool would be made available to fund the MdCare program ($60 million in 2003).
- Savings to other Maryland indigent care programs would be used to fund the program. These programs include:
  - The public mental health system ($42 million);
  - The public substance abuse treatment system ($89 million);
  - The breast and cervical cancer program ($14 million); and
  - The Maryland Primary Care Program ($7 million).