

Meridian Health Plan Position Paper – Basic Health Program: March 15, 2012

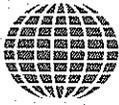
INTRODUCTION

Thank you Senator Kahn, Senator Marleau, and the members of the Senate Health Policy Committee for this opportunity to discuss the Basic Health Plan.

My name is David B. Cotton, M.D. and I am here today on behalf of Meridian Health Plan. Meridian Health Plan is a physician owned and operated health plan which is the largest Medicaid HMO in the State of Michigan. As President/CEO of Meridian Health Plan, I am entrusted with providing the highest quality of care to over 290,000 individuals in the State of Michigan. My current role in the healthcare community enables me to offer you a unique perspective on the Basic Health Program.

SUPPORT FOR BASIC HEALTH PROGRAM

I am here today to offer my support for Senate Bill 595 which, if enacted, would implement a Basic Health Program in Michigan. As an initial matter, it will be helpful to provide a general overview of the Basic Health Program, a program arising out of the Affordable Care Act. Part of the ACA legislation requires each state to establish a Health Benefits Exchange to facilitate the provision of subsidized insurance to lower income individuals. The Affordable Care Act is not prescriptive, in the sense that it provides states flexibility to develop programs that best meet their needs. One such program is the Basic Health Program. The Basic Health Program provides an alternative method to deliver care to those individuals earning between 139% and 200% of the Federal Poverty Level. This translates to a family of four with annual incomes ranging from \$32,040 to \$46,100.



THE FEDERALLY-FUNDED BASIC HEALTH PROGRAM

Under current law states have two options to deliver coverage to adults with low incomes not eligible for Medicaid. Adults and their dependents with incomes between 139% and 200% of the Federal Poverty Line (FPL) are eligible for either: (1) subsidized commercial insurance via an “Exchange” or (2) enrollment in the “Basic Health Program” (“BHP”).

I believe the Basic Health Program is the best choice for Michigan for the following reasons:

- **First, there is little to no cost to the State** – The BHP is 100% funded by the Federal government at 138% of estimated Michigan Medicaid costs. The State will be able to capitate payments to health plans, which will minimize the financial risk to the State.
- **Second, the program is self-sustaining** – Federal subsidies for the BHP are expected to exceed costs for more than 25 years based on current trends. Federal payments to the State to cover 250,000 Michiganders in the BHP should be no less than \$856 million. This amount is based on \$3,422 per individual, which was the annual cost incurred by MCOs in 2011 to cover an individual in the Michigan Medicaid managed care program. Because the BHP funding is based on the second lowest cost Silver tier plan in an Exchange, the expected Federal payments should not be lower than \$856 million, as the plans operating in an Exchange will not offer a commercial plan at lower than Medicaid rates. **Federal payments may exceed the expected costs of the BHP by over \$564 million as many experts approximate annual funding to be over \$5,665 per individual in the BHP, or \$1.42 billion.**
- **Third, there are savings to the State on the existing Medicaid program** – Significant State budget savings could occur, as permitted by the ACA beginning on January 1, 2014, if the State terminated optional Medicaid coverage for adults with modified adjusted gross income above 139% FPL. They



could be transferred to the BHP without increasing their health care costs or reducing their benefits.

These savings would not occur in an Exchange.

- **Fourth, the targeted population should have a higher insurance enrollment rate with a BHP –** Studies show that premium costs and high out of pocket costs deter low income individuals from purchasing health insurance. The relatively high cost sharing and premium costs will most likely limit elective enrollment in an Exchange. Thus, a significant number of individuals eligible for subsidies in an Exchange will choose not to participate. The BHP will be structured to eliminate or significantly reduce out of pocket costs to such individuals, resulting in a greater number of members electing to be insured.
- **Fifth, provider continuity will occur –** It is estimated that 35% of all low income adults will need to move between Medicaid and an Exchange every 6 months. Studies show that provider continuity is clinically significant. The BHP will provide stability of coverage to families and continuity in terms of their provider network as Medicaid networks would be used for the BHP program.
- **Sixth, there will be enhanced provider payments –** Provider payments will be higher than Medicaid rates. These payments will result in a net increase to the State in tax dollars, as well as increase reimbursement to providers.
- **Seventh, greater benefits to enrollees –** Federal funding is in the form of an advanced lump sum given to the State at the beginning of each Federal fiscal year with the potential funding for Michigan exceeding \$1 billion annually. The State would collect interest on the undistributed monies that would be dispersed to health plans on a monthly basis over the course of the year. This interest may be used to offer additional benefits to enrollees, or it may be used as a rainy day fund to hedge against the risk of lower Federal funding in the future.



Lastly, this bill has a safety valve. In the unlikely event that the costs of the Basic Health Program exceed current expectations, Senate Bill 595 includes an “escape hatch,” which provides the option not to move forward and simply defer to Exchange coverage for those individuals earning 139% to 200% FPL. In other words, there is little risk to enacting Senate Bill 595.

CONCLUSION

I urge you to consider the benefits of enacting Senate Bill 595. The Basic Health Program offers the citizens of Michigan the opportunity to implement health reform in a way that benefits all interested stakeholders. In conclusion, Senate Bill 595 is a “win-win” for everyone.