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Richard B. Murdock
Michigan Association of Health Plans

Testimony before Senate Appropriations Committee
April 30, 2014

Good afternoon. My name is Rick Murdock, Executive Director of the Michigan Association of Health Plans and I am here to comment on SB 893 and 913—legislation that would restore the State's use tax requirements on Medicaid Health Plans and reduce the effective rate charged to payers under HICA. Let me indicate from the outset that MAHP is supportive of these bills with suggested changes.

Review of Tax Support for Medicaid Managed Care

The issue of targeting restricted fund sources to support Medicaid generally and managed care specially is neither a new concept nor one that our industry has not previously supported. Beginning in 2002 and continuing thru today a significant source of revenue for the health plan line has been based on taxes/assessments imposed on our industry. This began with the HMO Quality Assurance Assessment Program, QAAP in 2002—similar to that now used by the hospital and nursing home industry—amended in 2006 to include the State's Medicaid mental health program provided through Prepaid Inpatient Health Plans, PIHPs, and shifting to the state's use tax in legislation passed in 2008. As many know, this approach was replaced by HICA in 2011. The anticipated revenue—and its shortfall appears in the health plan line item so we have a very keen interest in this issue and are committed to work toward resolution of shortfalls and establishing a more secure base of revenue.

Current Budget Issues in Medicaid Managed Care.

Medicaid managed care has been a tool used by the State for decades and mandatory enrollment since 1997. Budget savings of hundreds of millions of dollars have been the result each year—compared to running the program in fee for service, improved access to care and high performance as indicated by Michigan having 10 of the top 50 Medicaid Plans nationally. To continue to support managed care requires an adequate rate structure.

As many know, MAHP has identified major concerns with the proposed budget for FY 15 that are exacerbated by the revenue shortfall of HICA, additional costs that are not yet addressed by the budget, and our need to secure "actuarial soundness" for rates as required by state and federal rules. We have provided details on

these issues in the subcommittee hearings and in meetings with members, fiscal agencies and staff, but in summary these include:

- Adequate Rate adjustments to cover economic increases. Of concern is the overall Medicaid health plan industry margins have been reduced over the past several years—from a margin of 1.7% in 2011 to 0.8% in 2013—a trend moving in the wrong direction. We estimate that this would be about \$100 million.
- New costs overall. This would include the premium tax applied to health plans under ACA—including Medicaid plans. We anticipate in FY 15 that this may be as much as \$130 million—this tax will be on reported Medicaid capitation, including that of “transfer payments” the health plans make on behalf of the Administration to hospital and medical schools. These payments are a considerable part of the overall rates paid to health plans—and are implemented as partnership with the Administration.

Therefore, we estimate that the shortfall related to actuarial soundness in the budget recommendations, including the new ACA Premium tax would be about \$230 million over the Executive Recommendation for “actuarial soundness”. Because part of the shortfall is related to the Healthy Michigan Program—relief can be obtained administratively by moving rates to the upper end of the rate range approved by CMS—and no general fund or use tax revenue would be necessary.

The basis for our support in SB 893 and SB 913 was that this legislation provides the vehicle to address this shortfall and our members are willing to accept returning to the use tax method that would impose a tax solely on our members.

Reducing HICA

It is clear that while well intended, as documented by SFA, HICA has not produced the revenue previously provided via the use tax and has created a burden on all payers rather than those who may benefit directly by the revenue. With the re-introduction of the use tax, the ability to reduce and ultimately eliminate HICA becomes possible. We understand the projections for FY 15 allows partial relief but also believe there will be additional revenue due to required movement of additional programs into managed care at the end of FY 15 and start of FY 16. This should be viewed as an opportunity to further reduce the HICA and consideration of a potential “trigger” for further reductions in HICA should be taken.

MAHP Recommendation

The proposed legislation has been discussed by members of MAHP and we support (SB 893 and SB 913) with the following recommendations:

1. The cost of the use rate is built into the rates as part of actuarial soundness requirements. (Part of the SFA analysis)
2. The “surplus” projected for FY 15 is used to support the cost of the new Premium tax on Medicaid Plans.

3. MDCH to adjust the rates paid to Medicaid Plans under Healthy Michigan Act to the high end of the CMS approve rate range to accommodate actuarial soundness—this is an administrative action—requiring no additional General Fund or Use tax revenue.
4. Amendment to the SB 893 or to the Social Welfare Act to clarify the revenue subject to the Use tax—(recommended amendatory language for SB 893 attached to testimony).

Thank you for the time to present before this committee and we are happy to answer questions.

Attachment

Clarifying Amendment of Revenue subject to use Tax under SB 893

Sec. 3f. ~~Beginning April 1, 2009 through March 31, 2012, the~~ THE use or consumption of medical services provided by entities identified in, and pursuant to contracts identified under, section 106(2)(a) and section 109f(2) of the social welfare act, 1939 PA 280, MCL 400.106 and 400.109f, shall be taxed in the same manner as tangible personal property is taxed under this act notwithstanding any other provision or exemption under this act. **AS USED IN THIS SECTION, MEDICAL SERVICES MEANS THOSE MEDICAL SERVICES PROVIDED ONLY TO MEDICAID BENEFICIARIES ENROLLED UNDER TITLE XIX OF THE SOCIAL SECURITY ACT.**