

*Coordinating health & health care
for a thriving Kansas*



**Testimony on:
Premium Assistance**

**presented to:
Senate Health Care Strategies Committee**

**by:
Andrew Allison, Ph.D. Kansas Health Policy Authority**

January 28, 2008

For additional information contact:

Dr. Barb Langner
Kansas Health Policy Authority

Room 900-N, Landon State Office Building
900 SW Jackson Street
Topeka, KS 66612
Phone: 785-296-3981

Testimony to the Senate Health Strategies Committee

Rm. 900-N, Landon Building, 900 SW Jackson Street, Topeka, KS 66612-1220
www.khpa.ks.gov

Medicaid and HealthWave:
Phone: 785-296-3981
Fax: 785-296-4813

State Employee Health
Benefits and Plan Purchasing:
Phone: 785-368-6361
Fax: 785-368-7180

State Self Insurance Fund:
Phone: 785-296-2364
Fax: 785-296-6995

January 28, 2008

Premium Assistance

Andrew Allison, PhD, Deputy Director Kansas Health Policy Authority

Introduction

Kansas Healthy Choices is a new health insurance program created by the legislature in 2007 that provides private health insurance to very low income Kansas families. Although children in Kansas are eligible for Medicaid or HealthWave up to 200 percent of the federal poverty level (FPL), Kansas currently has one of the lowest rates of Medicaid eligibility in the nation for poor parents (below 37 percent of the FPL). Premium assistance is the use of public, employer, and potentially individual contributions to purchase private health insurance for Kansas families living in poverty who cannot otherwise afford coverage. Kansas Healthy Choices (KHC) is the program name for the initiative authorized by Senate Bill 11 to use premium assistance to provide access to a range of private health insurance options to eligible families. The program applies minimal restrictions on families' purchase of private insurance, while ensuring:

- State access to 60% Federal matching funds
- Lower cost as compared to both private insurance and more comprehensive Medicaid coverage
- Access to affordable healthcare for families living in poverty
- Protection of benefits to those currently eligible for HealthWave
- Coverage for newly eligible parents on a par with private insurance plans
- Coverage under one plan for each member of the family
- Continuing access to a primary care medical home.

Insurance options under *Kansas Healthy Choices*

Families eligible for Kansas Healthy Choices will receive private coverage through one of the following mechanisms (*subject to pending Federal approvals*):

- Employer sponsored insurance (ESI) buy-in: For families with access to employer sponsored private health insurance, the state would pay the employee share of the health insurance premium for families.
- Competitively bid state-procured health plans: For families without access to a qualifying employer plan, KHPA will provide a choice of three state procured health plans offering high-quality, cost effective benefits. Basic benefits will be tied to the value of state employee benefits.
- Health opportunity account (HOA) pilot: Families in one urban and one rural county will have access to a pilot program testing the application of consumer-driven purchasing in a low-income population. A high-deductible health plan will be coupled with a funded health opportunity account to provide incentives for prudent, prevention-oriented health care choices.

Implementation Schedule for *Kansas Healthy Choices*. KHC options will be available beginning in January 2009. Over three years, the program is expected to provide about 20,000 existing and 24,500 newly eligible caretaker adults and their children with the choice of private insurance options and a "medical home" model of health care services.

Phase-In	Phase 1 FY 2009	Phase 2 FY 2010	Phase 3 FY 2011	FULL PHASE IN
Percent of Federal Poverty Level (FPL)	37- 50% FPL	50-74% FPL	75-99% FPL	Total expanded population under 100% FPL
Number of newly-eligible parents covered	8,500	7,000	8,500	24,000

Poor parents of Medicaid eligible children are the target population for the eligibility expansion associated with premium assistance. They are chronically uninsured or underinsured, have very low incomes, use the emergency room for last-resort care and are not generally in the private insurance market. Their employer may offer insurance but these parents can not usually afford the employee share of the premium and choose to remain uninsured. Current eligibility levels for Medicaid for caretaker adults (e.g., parents) are below 37% of the Federal Poverty Level (FPL), which in 2007 was \$3,778 for a single person; \$5,065 for a family of two; \$6,353 for a family of three; and \$7,641 for a family of four.

Developing the Kansas Healthy Choices/Premium Assistance Program

Statutory authority. KHC coverage will be provided through the purchase of employer-sponsored or procured, commercial health insurance. Both options will cover services that are actuarially equivalent to the State Employee Health Plan, as specified in SB 11, which received unanimous support in the Kansas legislature and was signed into law by the Governor on May 10, 2007. Kansas will utilize two provisions of the Deficit Reduction Act of 2005, sections 1937 and 1938, for support of the state’s innovative plan design. Section 1937 allows States to provide benefit packages to Medicaid beneficiaries that differ from coverage defined in the state’s approved state plan through enrollment in approved benchmark or benchmark-equivalent coverage, such as procured health plans or employer sponsored insurance plans. Section 1938 provides for 10 states to operate their Medicaid benefits to volunteer beneficiaries through a program that is comprised of a Health Opportunity Account (HOA) and High Deductible Health Plan (HDHP).

The authorizing language for premium assistance reads as follows:

[The KHPA’s health care programs shall include]...” a phased-in premium assistance plan to assist eligible low income Kansas residents with the purchase of private insurance or other benefits that are actuarially equivalent to the Kansas state employee health plan under a program authorized under subsection (a)(1). In program years one and two, subject to appropriation of funds and other eligibility requirements, eligible participants shall consist of families at and under 50% of the federal poverty level. Subject to appropriation of funds and other eligibility requirements, eligible participants in program year three shall consist of families at and under 75% of the federal poverty level. Subject to appropriation of funds and other eligibility requirements, eligible participants in program year four shall consist of families at and under 100% of the federal poverty level. The Kansas health policy authority is authorized to seek any approval from the centers for medicare and medicaid services necessary to accomplish the development or expansion of premium assistance programs for families” Section 4(1)(F) of Senate Bill 11, K.S.A. 2006 Supp. 75-7408

In addition, SB 11 language “to promote market-based solutions that encourage fiscal and individual

responsibility” and “expand consumer responsibility for making health care decisions” is consistent with the philosophy underlying Health Opportunity Accounts.

Legislative history. The basic structure of Kansas Healthy Choices is defined in this legislative language – the use of private insurance to expand coverage to families living (well) below the poverty level, providing coverage to family units as a whole rather than parents alone, tying those private benefits to the level provided in the state employee health plan, and phasing coverage in over three years. Additional program design features were highlighted in fact sheets and explanations provided to legislators and stakeholders during the debate over that legislation. See, for example, the program description offered to the Health For All Kansans health reform Steering Committee on March 11, 2007 on KHPA’s website:

[http://www.khpa.ks.gov/AuthorityBoard/HealthForAllKansans/3-19-](http://www.khpa.ks.gov/AuthorityBoard/HealthForAllKansans/3-19-HFAKansansSteeringCommittee%20final%20_3_.pdf)

[HFAKansansSteeringCommittee%20final%20_3_.pdf](http://www.khpa.ks.gov/AuthorityBoard/HealthForAllKansans/3-19-HFAKansansSteeringCommittee%20final%20_3_.pdf) . The program’s basic design is reflected in a core set of goals and objectives that have remained consistent since the deliberations over SB 11, which are to:

- Ensure access to affordable healthcare for families living in poverty by extending coverage to parents of Medicaid eligible children
- Protect benefits offered to children and other current eligibles
- Bring parents and children into the same private health plans
- Increase participation by eligible children
- Expand coverage solely through private health plans
- Put parental benefits on a par with privately-insured families
- Provide health plan choices available to low-income families
- Prepare the way for further reforms
- Explore use of health opportunity accounts and consumer driven purchasing
- Draw in Federal funds and take advantage of Deficit Reduction Act (DRA) flexibility

Design process. To flesh out the design of the premium assistance program, KHPA engaged in a months-long public policy development process, convening an open premium assistance design workgroup to solicit feedback from carriers, providers, and other stakeholders, sharing preliminary plans with the KHPA Board and the health reform advisory councils (Purchaser, Provider, and Consumer), conducting an initial Request For Information (RFI) process with prospective bidders, issuing open invitation and subsequently meeting with health plans, insurance agents, associations, and other stakeholders regarding the program’s design, and maintaining a webpage devoted to the design of the program. For details, see

<http://www.khpa.ks.gov/AuthorityBoard/PremiumAssistance.htm>.

The first RFI process provided important feedback on the design of the Kansas premium assistance program. We requested feedback on a number of key program details, including: the nature of the benefits (mandatory versus optional), the number of health plans to be offered to KHC participants, the selection criteria to be applied to the health plans, the coverage area for each health plan (i.e., statewide versus regional), the “lock-in” or health plan selection timeframe for enrolling families, recommended levels of reimbursement for providers contracting with KHC health plans, coordination of benefits and simplification of administrative process for providers and families. Seven health plans responded to the RFI with extensive responses, as did one provider association. The responses were then summarized and shared with the premium assistance design workgroup, along with preliminary program design details as proposed by KHPA staff. The summary and preliminary design was posted on the website at

<http://www.khpa.ks.gov/AuthorityBoard/PremAsstWrkgrpDocs/RFIMatrix.pdf> in November 2007.

Over the next few weeks, KHPA staff completed the design and administrative work necessary to prepare for premium assistance implementation – and provide important details of the program to stakeholders and

legislators. We worked to flesh out the program design and prepare both a state plan amendment and a draft request for proposals to procure health plans, each of which requires CMS approval in order to secure 60% Federal matching funds. Those documents were submitted to CMS in December. The program design reflected in these documents (the RFP itself must remain confidential until released as part of the state procurement process) were presented to the KHPA Board for approval at their next meeting January 22, 2008, in the form of a detailed fact sheet [submitted as a part of this testimony] and an follow-up RFI. The purpose of the follow-up RFI is to provide a reasonably complete set of program details as reflected in the materials submitted to CMS for their review, given the restrictions in the procurement process against sharing the draft RFP. A fact sheet and set of “Frequently Asked Questions” has also been prepared for the public.

Program design for Kansas Healthy Choices

Employer Sponsored Private Health Insurance. When a family determined to be eligible for Kansas Healthy Choices has access to an employer-sponsored insurance plan, a review of those benefits will determine whether it is more cost effective for the State to reimburse the family for employer sponsored coverage instead of providing services through the state-procured health plans. The family will provide detailed information about the insurance that is available to them and the State’s enrollment broker will perform an evaluation based on the family’s cost and the employer sponsored coverage compared to the KHC services. The State will pay the employee’s portion of employer-sponsored insurance if it is less expensive than providing KHC coverage through a state-procured plan.

State Procured Private Health Insurance. KHC families determined to be eligible for a KHC procured plan will be sent a choice packet instructing eligible caretakers to select one of the statewide health plans, a plan for themselves and their eligible family members, much as the State Employee Health Plan works today. A limited number of families in two pilot counties will also be able to select the demonstration HOA/HDHP program. The choice packet will contain information about the type of plans, benefits and network coverage available. If a beneficiary does not choose a health plan, the family will be systematically assigned to one of the three benchmark-equivalent health plans. Consistent with Federal requirements – and unlike the private marketplace – KHC participants will be subject to neither waiting periods nor pre-existing condition clauses.

Eligibility Group	Kansas Healthy Choices Options			
	Three (3) Procured Private Health Plans		One (1) Health Opportunity Account Pilot	Employer Sponsored Insurance
	Basic Services actuarially equivalent to state employee plan	Wrap-around Services		
Parents up to 37% of the FPL	Yes	Yes	Yes	Yes
Beneficiaries under 21	Yes	Yes	Yes	Yes
Pregnant Women	Yes	Yes	No	Yes
Newly eligible parents above 37% of the FPL	Yes	No	Yes	Yes

Piloting Health Opportunity Accounts (HOA). KHPA is proposing an HOA pilot as a component of the premium assistance program, subject to approval by CMS. HOAs work much like health savings accounts, in that participants pay the full (health plan-negotiated) costs of care up to the level of a deductible, which is

anticipated to be \$2,500 for adults and \$1,000 for children, as specified in Federal guidelines. The goal of the HOA pilot is to give participants a greater role in their own health care decision-making and to facilitate the transition to privately financed health insurance coverage. This pilot program will be limited to 1,000 KHC beneficiaries and their currently eligible HealthWave Title XIX family members in one urban and one rural county, who will test the application of consumer-driven purchasing in a low-income population. A high-deductible health plan will be coupled with a funded health opportunity account to provide incentives for prudent, prevention-oriented health care choices. The HOA program will be voluntary and, therefore, will not receive any beneficiaries during the systematic default process.

Differences with Medicaid. KHC's design is intended to mimic private coverage through an explicit linkage with the state employee health plan, with benefits similar to that provided by most large employers. Families rising out of poverty and leaving premium assistance will find that their individual or employer-based coverage looks much more like premium assistance than Medicaid or HealthWave. With the implementation of Kansas Healthy Choices, KHPA is proposing to move about 20,000 existing and 24,500 newly eligible caretaker adults and their children with the choice of private insurance options and a "medical home" model of health care services. Where possible, families will enroll in employer-sponsored plans. Others will select private health plans that offer coverage explicitly tied to levels of coverage in the state employee health plan, with benefits that best fit their families' needs. Unlike Medicaid plans, the state-procured plans may offer different benefit coverage options for the expansion population of parents above 37% of poverty.

Benefits. Benefits for newly eligible parents above 37% of poverty will differ from Medicaid. The following chart provides a list of optional and required services for new eligibles and those currently eligible for HealthWave Title XIX. Overall, procured health plans must offer a plan that is actuarially equivalent to the State Employee Health Plan.

Service	State Employee Health Plan Coverage	KHC Coverage Level (for newly eligible parents above 37% of poverty)	HealthWave XIX Coverage Level
<ul style="list-style-type: none"> • Medical, surgical, anesthesia, diagnostic, therapeutic, and preventative services. • These services may be provided at clinics, rural health clinics, federally qualified health clinics or Indian health centers. 	Yes	Ear and eye exams are required to be covered at 75% of this service level. All other services at 100%	100%
Inpatient and outpatient hospital services.	Yes	100%	100%
Laboratory services	Yes	100%	100%
Diagnostic and therapeutic radiology	Yes	100%	100%
Emergency room services	Yes	100%	100%
Mental health services, including inpatient and outpatient services, for all nervous or mental illness conditions (other than a biologically based illness).	Yes	75%	100%*
Prescription drugs, including injectable prescription drugs and intravenous drug treatments	Yes	75% Health plans are encouraged to promote the use of generic drugs; e.g., through tiered cost-sharing.	100%
Other Title XIX state plan services	Varies	Vendor's choice	100%
Other State Employee Health Benefits	100%	Vendor's choice	Varies
Services provided by neither the Title XIX state plan or the State Employee Health Benefit Plan	No	Vendor's choice	No

*Those eligible for Medicaid Title XIX under current rules will continue to participate in the Prepaid Ambulatory and Inpatient Health Plans.

Protections for families and children who are currently eligible for HealthWave. KHPA has made continuity in a medical home a priority for children and families enrolled in HealthWave, Medicaid, and KHC. Implementation of KHC will involve the potential transition of some HealthWave enrollees into either employer-sponsored coverage or a procured plan of their choice, depending on whether current HealthWave health plans bid successfully to participate in Kansas Health Choices. Those eligible for HealthWave under current eligibility criteria will continue to receive full Title XIX benefits, either through the health plan, or by receiving supplemental services from the Medicaid program. Families participating in KHC will have a choice of health plans. Those not selecting a plan will be directed towards a health plan that includes their medical home in the network.

Some Advantages of Kansas Healthy Choices/Premium Assistance:

Access to care. For very low-income families below 100% of the poverty level, health care is unaffordable without aid of insurance coverage from an employer (which is rare) or public dollars. Premium assistance is not a magic bullet ensuring access to care; it is a source of funding to purchase adequate insurance coverage. Health care studies consistently demonstrate that publicly-financed insurance coverage greatly increases access to care, although not to the level of more expensive private coverage. Families' access to care also requires an adequate number of providers willing to participate in available health plans. KHC will provide access to networks of private, public, and safety net providers at the lowest potential cost to taxpayers by relying on the negotiating strength of procured plans, and by ensuring that provider reimbursement remains in line with expected rates for publicly-supported care. Even with KHC coverage, KHPA remains concerned about the availability of primary care medical homes, dentists, nurses, and other health care providers in Kansas.

Support for safety net. KHC health plans will be required by Federal rules to contract with safety net providers, strengthening the financing base for these critical providers with Federal and state dollars. The expansion of coverage to previously-uninsured parents that the premium assistance program enables should expand and stabilize funding for services provided to this population by safety net clinics. KHPA agrees with the need for a strong safety net, but acknowledges that a strategy which depends solely on publicly-financed or publicly-employed providers is by itself insufficient in providing appropriate access to care, especially for those who need specialty services or treatment for chronic illness. The principles of the safety net – subsidized care provided on the basis of need – are precisely the same principles that underlie publicly-financed insurance coverage, except that publicly-financed insurance opens up access to public dollars to all providers, including the much larger base of private providers, rather than restricting those dollars to the limited network of safety net clinics. Expanding health insurance coverage, for example, provides an additional source of stable funding for hospitals, clinics, and the 70% of private physicians who provide some level of charity care. These private providers consist of thousands of additional points of access for Kansas Healthy Choices participants, providing significantly greater access to care for the state's uninsured and extending the geographic reach of the program far beyond the service areas of the states 33 safety net clinics.

Use of Federal and private funds. KHC would be funded with a combination of federal funds, state funds, employer contributions. The premium assistance mechanism could also be used for populations that can afford to make an individual contribution to the premium. Taking advantage of the federal Deficit Reduction Act of 2005 (DRA) flexibility will give Kansas a legitimate opportunity to “catch up” with other states in terms of federal support for increasing access to health care. The core purpose of the premium assistance program is to provide access to insurance coverage – and therefore to medical services – for poverty level families that could not otherwise afford it. This requires a source of funding not currently available to these families. Without government financing, these families will not be able to participate in the private insurance market. Kansas Healthy Choices is designed to draw on all available sources of financing to ensure coverage for poverty-level families and childless adults. Given the extreme financial circumstances of families living below poverty, those sources of funding consist primarily of the federal government, state government, and employers. The Federal government is the largest potential source of financing for this population, offering 60% funding to states willing to abide by applicable rules. Those rules were relaxed somewhat in the DRA-based coverage for certain populations, prompting Kansas to propose Kansas Healthy Choices for parents above 37% of poverty.

Impact on health care spending. By taking advantage of multiple funding streams, KHC will save state dollars. The emphasis on attaching program participants to employer-sponsored coverage, whenever possible, strengthens and expands the small group market and helps to prevent shifting of privately-covered individuals into a publicly-financed program. The program's design also saves significant dollars as compared to the

principle alternatives. Due to differences in the benefit package, the cost of KHC coverage for newly covered parents above 37% of poverty is expected to be significantly less expensive than a straight Medicaid expansion (projected costs are 10-15% lower than Medicaid on a per-member-per-month basis). KHPA will procure health plans on behalf of beneficiaries in exactly the same way that large employers, including the state, use their leverage in the marketplace to get the best price. The procured health plans are also expected to cost between 15 and 20% less than the state employee plan due to expected differences in provider reimbursement. An alternative form of premium assistance might be to attempt to finance coverage through the individual health insurance market through some sort of “voucher” process. Other states have not been successful in implementing a voucher program for this population. This program relies exclusively on private sources of coverage. Providing vouchers to beneficiaries for use in purchasing insurance policies in the individual marketplace would; (1) require individual underwriting and much larger insurance costs for each beneficiary, leaving less for actual care; (2) require commercial provider rates for Medicaid-funded beneficiaries, creating inequities with other beneficiaries and inflating program costs by 30% or more; (3) leave higher-risk participants – those most in need of care – without means to participate in the individual market.

While KHC takes advantage of the most efficient program design available, KHPA understands the distinction between minimizing and lowering health care costs. Neither publicly-financed health care programs, nor the private marketplace, have held costs in check in the United States. Insurance, in and of itself, cannot lower the underlying costs of care. By any reasonable standard, the private marketplace for health care is weakly competitive at best, and plagued with market failures and limitations that are endemic to the nature of medical care itself. It is difficult to come up with a market for goods and services in greater need of the support of public intervention than exists in health care markets, which would likely render most retired, and virtually all disabled and poor Americans, medically destitute were it not for the presence of government intervention through Medicare and Medicaid. KHPA proposes a number of systemic health reforms designed to encourage greater efficiency and lower costs by strengthening and expanding private markets, rather than replacing or eliminating them. The 21-point health care proposals address the source of health care costs in their emphasis on prevention, costly conditions such as obesity, and costly behaviors such as smoking and poor eating habits, and in their emphasis on increasing efficiency and information through health information exchange and smart ID cards. KHPA respects the private marketplace, and intends to enhance, rather than compete, with it.

Conclusion

Since passage of SB 11 in May 2007, KHPA has engaged in an extended, open, and participatory process to flesh out the details of the premium assistance program. The resulting program design extends private coverage to families too poor to be able to afford coverage on their own, taking advantage of Federal, state and private dollars and keeping overall costs below both the traditional Medicaid program as well as comparable private coverage. In the past, the state has been forced to consider coverage expansions as an all-or-nothing bargain between Medicaid or nothing at all. By taking advantage of new Federal options to offer limited benefit packages, Kansas is able to offer more of a transitional program that has the look, feel, and operation of private coverage. We look forward to working with the Legislature to finish the task of providing access to coverage for about 10% of the state’s growing uninsured population.