Insurance Exchange Cost Considerations

Legislative Health and Human Services Presentation

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- **The Patient Protection and Affordable Care Act is unquestionably a major step to finally achieving a system of universal coverage in the United States.**

- **The law contains many provisions that will benefit New Mexicans.**

- **The law calls for state insurance exchanges, mechanisms created to help solve the problem of the uninsured and contain health care costs.**

- **New Mexico has to make the decision whether to invest in a health insurance exchange. The purpose of this presentation is to discuss exchange cost issues and to offer some options the legislature may wish to consider.**

I. There are two key cost questions that need to be addressed regarding health exchanges.

A. How will the cost of setting up and operating an exchange impact our general fund?

B. Will exchanges be able to reduce rising overall health care costs?

Rising health costs impact the general fund as well because they affect Medicaid recipients, state employees, teachers and retirees and other state expenses.

II. The cost of setting up and operating exchanges: Will federal grants cover these costs?

The national law provides for many opportunities for states to receive needed funds, which NM clearly should take advantage of.

What grants are provided to states for the set-up and operation of exchanges?

There are two different types of grants available:

1. Planning and establishment grants. These are not competitive and a state may receive up to $1 million. (New Mexico just received this grant.)

2. Grants to provide states with funds for the set-up and operation of exchange. These grants

- are competitive
- are annual
- end by January 1, 2015

- There is **no guarantee** that New Mexico will receive grants that will cover *all* or *any* of the expenses of setting-up and operating an exchange through January 1, 2015.

- There is **no guarantee** that states will receive grants to cover *all* or *any* of the expenses to create the IT system to be used by the exchange.
- "This is a huge challenge, on which the whole enterprise can easily flounder." Jon Kingsdale, former ED of Massachusetts Connector, testimony at Joint Hearing of the California Senate and Assembly Health Committees (May 12, 2010).

- There is **no guarantee** that Congress will appropriate the full amount of funds needed for these annual grants.

Thus, it is critical to determine how much the set up and operation of exchanges will cost our general fund prior to January 1, 2015.

What happens after January 1, 2015?

Will the exchange be self-sustaining after that date? If it is not, this cost could also impact our general fund.

- **What are the projected administrative costs associated with the exchange?**
- **Will enrollment be sufficient to cover administrative costs?**
- **Will insurance fees collected by the exchange be sufficient?**

CMS projections:

- **Initial state exchange start-up costs from 2011-2013 = $ 4.4 billion ***
- **State exchange administrative costs from 2014-2019 = $33.3 billion**

*** Excludes HHS administration cost of $2.4 billion**

Andrea Sisko, et al, "National Health Spending Projections: The Estimated Impact of Reform Through 2019," *Health Affairs,* October 2010

- **Jon Kingsdale**: "Simply put, an exchange sells insurance. If it does not enroll many people, it has failed at its core mission. Under the ACA, the administrative budgets for state exchanges will be covered through surcharges on transactions, so both margin and mission depend on sales."

  "Health Insurance Exchanges – Key Link in a Better-Value Chain," *New England Journal of Medicine*, June 10, 2010, p. 2147

- **Timothy Stoltzfus Jost**: "…an exchange must achieve a significant size to be able to create economies of scale and limit administrative costs. Any exchange will have certain fixed expenses, such as personnel, IT, publication, legal rent, and utilities. Spreading these expenses over a larger population will reduce the costs imposed on each participant."

  "Health Insurance Exchanges and the Affordable Care Act: Key Policy Issues," *Commonwealth Fund* pub. No. 1426, p. 9

- **Timothy Stoltzfus Jost**: "It is not at all clear that the ACA exchanges will significantly reduce administrative costs as they have many responsibilities and will not be inexpensive," ibid, p. 18

III. Will an exchange help New Mexico contain overall rising health care costs?

If an exchange is not effective in controlling overall health care costs the general fund is still faced with the problem of rising Medicaid, state employee and retiree health costs.

A. No premium controls. Rate setting left up to states, which have little authority to deny rate increases.

B. Complex private insurance system retained

1. **Insurance administrative costs** include advertising, actuarial/underwriting costs, profits, CEO salaries, dividends to stockholders

2. Maintains system of multiple policies with different co-pays, deductibles and services offered, which impact **provider overhead costs**, not just insurance administrative costs (Attachment 1)

C. Exchange system may add **additional costs** to already complex system

D. **Cost shifting** will still occur: Uninsured, Medicaid, Medicare, exchange

E. **Carriers**, not the exchange, **negotiate** with providers

(Attachment 2)

The Massachusetts Experience

- Massachusetts has the highest average family premium in the nation.
  (Attachment 3)

- The state's health costs are still among the highest in the nation.

- The Connector is faced with increasing budget costs.
  Included in their budget cutting reductions:

  - Legal immigrants not permitted to purchase through the exchange
  - Enrollment has been slowed down

- Since 2006 Massachusetts has reduced the number of uninsured but the Connector actually only insures 2.64% of the state's population.
  (Attachment 4)

Testimony from Massachusetts state senator Jamie Eldridge, a Democrat who voted for the Massachusetts health care reform bill:

*The assumption was that, as more people—and, in particular, more young and relatively healthy people—joined the system, premiums would go down across the board. There was also the assumption that as more people became insured, the number of people going to the emergency room would drop dramatically, saving the Commonwealth money. Neither of those things have happened—at least not enough to produce the cost savings we were told we would see. In fact**, health care reform has cost the Commonwealth much more than expected—up to a record $1.3 billion this year*** [emphasis added].

(Quoted in Trudy Leiberman, "Health Reform Lessons from Massachusetts, Part I," *Columbia Journalism Review,* March 23, 2009.*)*

IV. Alternatives to insurance exchanges

Waivers for state innovation

1. Insurance exchanges are just one way to try to achieve the goals of covering the uninsured and controlling rising health care costs.

2. Acknowledging that states may come up with better approaches, the law provides for state innovation waivers.

3. States, however, are not allowed to apply for such a waiver until 2017, three years after the required establishment of exchanges.

4. The 2017 date forces states to invest the time, resources and funds (if federal funds are not sufficient) to set up an exchange and then to, once again, spend time, resources and funds to receive a waiver for a more appropriate approach.

5. Removing the 2017 date will enable a state to choose the best approach to comply with the goals of the law.

Conditions for Granting State Innovation Waivers

In order to qualify for a waiver, the state must pass a law authorizing a plan that meets the following four conditions:

- Provides coverage that is as comprehensive as required by Federal law
- Provides affordable coverage as required by the federal law (for example, cost-sharing and out-of-pocket limits)
- Covers as many people as the federal plan (exchange) would
- Does not add to the federal deficit

The Secretary of the Treasury and the Secretary of Health and Human Services are delegated to review state applications and determine whether the state's proposed plan meets these conditions before granting a waiver.

V. 2011 Legislative Session: Some Options

A. Decision about exchange does not have to be made during the 2011 session.

B. Some legislative possibilities:

1. Memorial/letter requesting congressional delegation to remove 2017 date from the waiver for state innovation provision

2. Legislative cost analysis: Vermont example (Attachment 5)

3. Pass alternative approach

V. Conclusion

- **It is critical to determine the cost to our state before investing in an insurance exchange.**

- **Creating an exchange in New Mexico is a very serious step with potential harmful consequences to our state budget and to our residents.**

- **Raising questions about the costs of the required exchange approach does not challenge the important goals of the national law – a law which does provide for state flexibility waivers.**

Let us not jump on the exchange bandwagon until we know the full cost of the ticket.