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MEMORANDUM

Date: May 8, 2015

To: Chair Monnes Anderson, Members of Senate Committee on Health Care

From: Janet Bauer, Policy Analyst

Re: Financing an Oregon Basic Health Program

Thank you for the opportunity to offer written testimony regarding HB 2934 A – a Basic Health policy recommendations bill, testimony that I have submitted under separate cover. My testimony states that the Basic Health study commissioned by the Oregon Health Authority shows that Oregon can be expected to operate a program at little or no cost to the state. This memo explains that point in detail.

Summary

The Oregon Basic Health Program Study modeled four design scenarios, while identifying other reasonable policy options that would improve the program's financing. Those options include 1) use of Section 1332 of the Affordable Act, which would allow a higher level of federal funds to Oregon, 2) use of modest premiums for the Medicaid-like reimbursement scenarios (scenarios "1a" and "1b"), and 3) inclusion of a group of pregnant women currently covered through OHP, saving general fund dollars. Due to contract limitations, the authors did not model the fiscal impact of these policy options.

This memorandum explores the fiscal impact of those policy options and finds that scenarios 1a and 1b fully pencil out, as shown in blue in the chart below.

Summary of Projected Cash Flows *with Select Program Adjustments* (thousands)

		Scenario 1a	Scenario 1b	Scenario 2a	Scenario 2b
Revenue	Federal BHP Payment	207,498	207,498	191,573	191,573
	Additional ACA Section 1332 funds	10,921	10,921	10,083	10,083
	Member Premium (1a: $10; 1b: sliding scale)	2,581	18,924	31,779	31,779
Claim and Carrier Expense	Claim Expense Liability	178,230	199,570	257,805	276,517
	Standard Health Plan Expenses	15,498	17,354	45,495	48,797
Admin Expenses	State Admin Expenses	15,380	15,380	17,179	17,179
Cost Savings	BHP for pregnant women 138%-185% FPL	26,062	26,062	not determined	not determined
Net	**Surplus/(Deficit)**	**37,954**	**31,101**	**(87,044)**	**(109,058)**

Overview of the Oregon Basic Health Study

Under federal law, states have latitude on how to structure a Basic Health Program. Thus, the Oregon Basic Health Program Study, conducted by Wakely Consulting Group and the Urban Institute, modeled four design scenarios.

The study was limited in how many scenarios it could fully analyze and recognized that additional program details would have important impacts. The authors accommodate this reality by including notes and, in some cases, quantitative information on how additional policy choices would affect the findings.

Scenarios Modeled by the Study

As noted above, the study modeled four scenarios. Two of the scenarios — labeled 1a and 1b — assume provider reimbursement levels in Oregon's Medicaid program. The other two scenarios — 2a and 2b — assume provider reimbursement levels typical in commercial plans. The "a" scenarios (1a and 2a) assume benefit packages comparable to the Essential Health Benefits package found in the health insurance exchange. The "b" scenarios (1b and 2b) assume a benefits package comparable to that of OHP Plus.

Of the four scenarios, Scenario 1b represents the features of the current Oregon Health Plan.

The chart on page 2 of the study summarizes these assumptions.

Table ES 1 – Summary of BHP Approaches that were Modeled

	Scenario 1a	Scenario 1b	Scenario 2a	Scenario 2b
Provider Reimbursement Level	Medicaid		Commercial	
Covered Benefits	EHB	OHP *Plus*	EHB	OHP *Plus*
Member Premium	$0		<138% FPL: $0 138 – 200% FPL: 50% of Premium for QHP Benchmark	
Member Cost Sharing	$0		<138% FPL: $0 138 – 200% FPL: 50% of Cost Sharing for Silver QHP	

Program Financing

The following chart from page 6 of the study outlines the expected revenues and expenses under each of the scenarios. This chart shows that, under several scenarios, revenues cover the bulk of program costs. However, under none of the scenarios would revenues fully cover program costs.

Table ES 2 –Projected BHP Cash Flows for 2016 (thousands)

		Scenario 1a	Scenario 1b	Scenario 2a	Scenario 2b
Revenue	Federal BHP Payment	$207,498	$207,498	$191,573	$191,573
	Member Premium	$0	$0	$31,779	$31,779
Claim and Carrier Expense	Claim Expense Liability	$178,230	$199,570	$257,805	$276,517
	Standard Health Plan Expenses [1]	$15,498	$17,354	$45,495	$48,797
Net	Surplus/(Deficit), Excluding State Admin	$13,769	($9,426)	($79,948)	($101,962)
Admin Expenses	State Admin Expenses [2]	$15,380	$15,380	$17,179	$17,179
Net	Surplus/(Deficit)	($1,611)	($24,806)	($97,127)	($119,141)

[1] Standard Health Plan Expenses assume loss ratios of 92% for scenarios 1a /1b and 85% for scenarios 2a / 2b.
[2] State administrative expenses are estimated at $19.32 PMPM/$23.32 PMPM for Scenarios 1/2. The higher amount assumes that BHP, rather than plans, handle premium collection.

How Oregon Could Design a Basic Health Program That Costs Little or Nothing

The study notes a number of approaches that would improve program financing over the scenarios modeled. I explore some of those options below.

1. Modest Premiums in Scenario 1

The study mentions adjusting the model to include modest premiums under Scenario 1. The authors assess the impact of several specific premium approaches:

> Charging $10 monthly premiums to BHP consumers with incomes above 175 percent FPL would change Scenario 1a's one-year $1.6 million deficit into a surplus between $1.0 and $1.2 million (page 7).
>
> Charging $10 monthly premiums to enrollees between 138 and 150 percent FPL, $20 between 151 and 175 percent FPL, and $40 above $175 percent FPL would lower scenario 1b's estimated $24.8 million deficit to a one-year shortfall between $5.7 million and $5.9 million (page 7).

The details for these estimates are provided in Appendix D. While the study authors do not include these findings in their summary chart (their scope of work did not include additional premium options), a summary chart can be created. I provide the chart below, which reflects the impact of the premium adjustments they model. For simplicity, I show only the low-end (more conservative) estimate provided.

Basic Health financing with modest premiums for scenario 1 (thousands)
as outlined in Oregon Basic Health Program Study

		Scenario 1a	Scenario 1b	Scenario 2a	Scenario 2b
Net	Surplus/(Deficit)	(1,611)	(24,806)	(97,127)	(119,141)
	Premiums ($10 for 1a; sliding scale for 1b)	2,581	18,924	n/a	n/a
Net	**Surplus/(Deficit)**	**970**	**(5,882)**	**(97,127)**	**(119,141)**

2. Funding Through Affordable Care Act Section 1332

The study notes that Oregon could potentially benefit from a higher level of federal funding under Section 1332 of the Affordable Care Act ("Waiver for State Innovation," sponsored by Oregon Senator Ron Wyden):

> This section may provide Oregon with 100 percent rather than 95 percent of the federal subsidies that Basic Health enrollees would have otherwise received in the marketplace. (Page 8).

Assuming the methodology to calculate the federal subsidies for the group mirrors the methodology the federal health agency established for determining state payments under Basic Health, I estimate that funding under Section 1332 would exceed funding under Basic Health, as shown in the next table:[1]

Basic Health financing with federal funding through Section 1332 (thousands)

		Scenario 1a	Scenario 1b	Scenario 2a	Scenario 2b
Net	Surplus/(Deficit)	(1,611)	(24,806)	(97,127)	(119,141)
	Additional funds from Section 1332	10,921	10,921	10,083	10,083
Net	**Surplus/(Deficit)**	**9,310**	**(13,885)**	**(87,044)**	**(109,058)**

3. General Fund savings opportunities created by Basic Health

The study outlines a number of ways in which Oregon could realize budgetary savings by shifting some programs to Basic Health. Although some details are provided, the study does not estimate general fund savings for the approaches it suggests. I describe these opportunities below. (See detailed discussion of cost-saving approaches, pages 59 - 61).

Pregnant women above poverty level. One opportunity for cost savings is to use Basic Health to finance coverage for pregnant women who have incomes between 138 percent and 185 percent of the federal poverty level — those in Oregon's "Poverty Level Medical - Adults" program. Oregon currently receives the regular federal Medicaid match rate for this group and would save general fund dollars if this group were financed through Basic Health.

The study notes that 4,400 women per month with incomes above 138 percent FPL participated in the program in 2014. Using OHA's projected 2016 per-member-per-month cost for this program ($1,373.39), I calculate the potential general fund savings, as shown in the following chart.[2]

Basic Health financing with coverage for Pregnant Women 138% - 185% FPL (thousands)

		Scenario 1a	Scenario 1b	Scenario 2a	Scenario 2b
Net	Surplus/(Deficit)	(1,611)	(24,806)	(97,127)	(119,141)
	General Fund savings from covering pregnant women 138% - 185% FPL	26,062	26,062	not determined	not determined
Net	**Surplus/(Deficit)**	**24,451**	**1,256**	**(97,127)**	**(119,141)**

Legally-residing immigrant pregnant women barred from Medicaid. Oregon serves authorized immigrant women with incomes below 138 percent FPL when they become pregnant and are ineligible for Medicaid, not having been in the country for the required five years. Oregon provides them with maternity services (only) through its Citizen Alien Waived Emergency Medical (CAWEM) program and receives federal reimbursement at the CHIP match rate (above the Medicaid rate).

The study notes that Oregon could shift these women to Basic Health. It reports that Oregon served approximately 4,600 pregnant immigrant women in CAWEM in 2013. Oregon could cover those who are legally-residing through a Basic Health program and thereby save general fund dollars. The study does not estimate the potential savings and I do not have enough information to do so at this time.

General fund spending on mental health and substance use disorders. A Basic Health Program could reduce general fund spending on mental health and substance use disorder treatment for adults with incomes between 138 and 200 percent FPL, as well as for legal resident immigrants with incomes below 138 percent FPL who are barred from Medicaid. The state could structure benefits under Basic Health so that treatment currently financed by general fund dollars can instead be paid for by the new program.

Breast and cervical cancer program. Although the study does not identify the Breast and Cervical Cancer program, I suggest that cost-savings may exist there. Women who have been diagnosed with breast or cervical cancer and do not have access to some other types of insurance are eligible to receive OHP Plus coverage. In January 2015, Oregon served over 600 women through this program. The state could potentially save general fund dollars by serving those with incomes between 138 and 200 percent FPL through a Basic Health Program.

Other cost-saving opportunities may be identified through additional budget review.

Summary of program financing opportunities

The chart below shows the aggregate impact of the program financing opportunities quantified in this memo. Under Scenarios 1a and 1b, an Oregon Basic Health Plan would generate a surplus.

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Net	**Surplus/(Deficit)**	**37,954**	**31,101**	**(87,044)**	**(109,058)**

Conclusion

The Oregon Basic Health Program Study demonstrates that program design is key to program financing. The study outlines a number of ways in which a Basic Health Program in Oregon could be structured to cost little or nothing to the state — or even to generate a modest surplus.

[1] The federal government has not issued rules for a Section 1332 waiver, however, we derive an estimate of the federal dollars under Section 1332 from the estimate of Basic Health payments to Oregon reported by the Oregon Basic Health Program Study. An estimate based on the federal methodology for the Basic Health Program is a reasonable starting place given that the methodological task for Sections 1331 and 1332 are fundamentally the same: to determine the amount of federal subsidies going to the target population in the marketplace in the absence of the optional program. Our analysis assumes Oregon would receive 100 percent of the federal funds under a 1332 waiver.

[2] Oregon Health Plan Section 1115 Quarterly Report, 10/1/2014 – 12/31/2014, Appendix B. See link, page 32.