STATE OF MARYLAND
DHMH
Maryland Department of Health and Mental Hygiene
201 W. Preston Street • Baltimore, Maryland 21201
Martin O'Malley, Governor – Anthony G. Brown, Lt. Governor – John M. Colmers, Secretary

JAN 0 8 2009

The Honorable Martin O'Malley
Governor
100 State Circle
Annapolis, MD 21401-1925

The Honorable Thomas V. Mike Miller, Jr.
President of the Senate
H-107 State House
Annapolis, MD 21401-1991

The Honorable Michael E. Busch
Speaker of the House of Delegates
H-101 State House
Annapolis, MD 21401-1991

RE: HB 1391, Ch. 692 (2008) - Report on Options for Increasing the Availability and Affordability of Health Care Coverage for Children with Family Incomes Above 300% of Poverty

Dear Governor O'Malley, President Miller and Speaker Busch:

In accordance with Section 2 of HB 1391 (Ch. 692 of the Acts of 2008), the Department is submitting the enclosed report on options for increasing the affordability and availability of health care coverage for children with family incomes that exceed 300% of the federal poverty level. This report provides an overview of the existing MCHP program and several options for expanding the program to higher income populations. There is also a discussion of the feasibility of the choices available to individuals in the private health care sector.

If you have questions or need more information about the topics covered in this report, please contact Anne Hubbard, Director of Government Affairs, at (410) 767-6480.

Sincerely,

John M. Colmers
Secretary

Enclosure

cc: John Folkemer
Susan Tucker
Tricia Roddy
Anne Hubbard
Sarah Albert, MSAR# 7020

REPORT ON OPTIONS FOR INCREASING AVAILABILITY AND AFFORDABILITY OF HEALTH CARE COVERAGE FOR CHILDREN WITH FAMILY INCOMES ABOVE 300% OF POVERTY

Section 2 of the Kids First Act (HB 1391 – Ch. 692 of the Acts of 2008) requires that the Department study options for increasing the affordability and availability of health care coverage for children with family incomes that exceed 300 percent of the federal poverty level (FPL). These options include an evaluation of at least three service packages, including: 1) families purchasing insurance coverage for their children through MCHP, *i.e.*, an MCHP-buy-in plan; 2) developing a State–sponsored health care coverage program with fewer mandates than MCHP; and 3) establishing a health benefit plan with child–appropriate benefits. This report provides an overview of the existing MCHP program and several options for expanding the program to higher income populations. There is also a discussion of the feasibility of the choices available to individuals in the private health care sector.

Current MCHP Program

The Maryland Children's Health Program (MCHP) provides comprehensive benefits for children whose family incomes are under 300 percent of the FPL. Benefits include all Early and Periodic Screening, Diagnostic and Treatment (EPSDT) services for children under age 19. Children under 200 percent of the FPL receive services at no cost to families. Children whose family incomes are between 200 and 300 percent of the FPL receive the same benefits for a modest monthly premium. The premium is assessed per family, not per child. In FY 2009, per family monthly premiums are either $46 (for families with incomes between 200 and 250 percent of the FPL) or $58 (for families with incomes between 250 and 300 percent of the FPL). There are currently roughly 330,000 children enrolled in Medicaid and another 110,000 children enrolled in MCHP, yet approximately 100,000 additional children in Maryland live in households below 300 percent of the FPL and lack health insurance.[1] In addition, there are about 40,000 Maryland children above the MCHP income limit who are uninsured or underinsured.

Ten years ago, when Maryland designed its State Children's Health Insurance Program (SCHIP), the State chose to offer a Medicaid-expansion program for MCHP enrollees, which includes all mandated benefits of traditional Medicaid programs.[2] The vast majority of MCHP children receive their health care services through HealthChoice. HealthChoice is Maryland Medicaid's mandatory managed care program and serves nearly 80 percent of all enrollees. Services are provided primarily through one of seven managed care organizations (MCOs). Children who qualify for the Department's Rare and Expensive Management (REM) Program may opt out of HealthChoice and receive services through the REM fee-for-service (FFS) program with enhanced case management services. In either case, the benefit package is the same; the main difference is whether these benefits are delivered primarily through MCOs or through FFS with case management. In addition, there are a limited number of services provided in the FFS environment for all MCHP children, even those enrolled in MCOs. These FFS carve outs include mental health services and related pharmacy, HIV/AIDS drugs, and special therapies.

<u>Federal Landscape</u>

Recent legislation to renew SCHIP, which was vetoed by President Bush, would sharply reduce states' ability to cover children above 300 percent of the FPL. When Congress takes up SCHIP between now and March 2009 – when SCHIP authority is scheduled to expire – provisions to grant state flexibility to expand beyond 300 percent of the FPL are highly unlikely.

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[1] Uninsured data source: Maryland Health Care Commission.

[2] As of 2007, Maryland's entire MCHP program is covered under a Medicaid-expansion SCHIP program. Previously, children with incomes over 200 percent of the FPL were covered under a separate SCHIP program. Under a separate SCHIP program, Maryland was at-risk of receiving no federal-matching dollars once its allotments were spent. Now Maryland will receive a 50 percent federal-matching rate if Maryland exhausts its allotments. There is less flexibility for states to change benefits under a Medicaid-expansion SCHIP program.

Accordingly, HB 1391 requires the Department to explore options to expand coverage for children beyond merely an extension of its current Medicaid-expansion SCHIP program.

Option 1: Buying Into the Maryland Children's Health Program

One option for covering uninsured children with incomes above 300 percent of the FPL is to allow uninsured children to buy-in to MCHP by paying the full premium for the program. Federal rules only permit states to cover children under MCHP up to age 19; however, because the State would receive no federal support under such an approach, Maryland could offer this benefit to older children.

The current average annual cost of an MCHP enrollee is approximately $2,000.[3] (This is the average cost of approximately 110,000 enrollees.) Under Option 1, children who would voluntarily opt to purchase insurance through MCHP undoubtedly would be sicker and have more complex health needs. This type of adverse selection means that the full premium cost to buy-in to MCHP would be well above the $2,000 figure for an average child and that only children who instead reflect children representing the top 10 percent of annual costs will enroll. Without a large risk-pool across which to spread these costs, the average annual cost of a buy-in program likely would increase, as high-users of services would continue to pay and less needy children would elect to drop coverage in the face of the full premium costs. Only after gaining some experience would the State be in a position to assess whether or not annual premiums would be higher. The State would be at-risk for any medical costs that exceed projected expenses.[4]

Table 1 below illustrates the cost of the MCHP-buy-in program. The table compares average costs against the cost of those children representing the top 10 percent of annual costs. These two costs are compared against the Maryland Health Insurance Plan (MHIP) and a private insurance option offered by CareFirst, which has minimal cost-sharing requirements. The average MCHP costs are slightly cheaper than the CareFirst policy for a healthy child. Children

[3] This amount does not include dental and vision. With those benefits, annual costs total approximately $2,200 annually.
[4] Some of the risk could be shared with the HealthChoice MCOs.

with pre-existing conditions would incur higher premiums through CareFirst or be referred to MHIP. Children with pre-existing conditions who cannot obtain private insurance coverage may purchase insurance through MHIP.[5] For instance, a child with a pre-existing condition whose family incomes exceeds 300 percent of the FPL could purchase an HMO product from MHIP for $537 per month. After 12 months, the premium drops to $358 per month. During the first year, the MHIP premium costs are approximately 15 percent higher than the cost of those children representing the top 10 percent of MCHP children; however, after the first year, the rate is 23 percent *lower*.

TABLE 1

	Per Child Per Month Cost	Annual Cost
Average MCHP Cost (FY 2008)	$169	$2,028
Cost of Top 10% of MCHP Children (FY 2008)	$465	$5,580
CareFirst Plan - *Quote based on healthy 9 yr. old male child in 21201 zip code* - *No deductibles, no co-insurance, low co-pays*	$195	$2,340
Maryland Health Insurance Plan (HMO Plan) - *No deductibles, or other cost-sharing requirements*	$358 or $537	$4,296 - $6,444

Note: MCHP costs assumes a 5% administrative cost. Costs do not include dental or vision coverage. Dental and vision coverage in private market are separate policies. Average MCHP costs with dental and vision are approximately $2,200 annually. Individuals with pre-existing conditions covered under MHIP pay the higher-end premium amount for the first year; after which they begin paying the lower amount.

Enrollees could purchase plans with even lower premiums in the private market and through MHIP (see table 2), rather than MCHP. These plans, however, have higher out-of-pocket costs, *e.g.*, deductibles and copays. Children who are healthier and tend to use the health care system less would likely opt to purchase these plans.

[5] Benefit package is modeled after a comprehensive standard benefit package in the small group market. MHIP offers premium subsidies to individuals with incomes below 300 percent of the FPL.

TABLE 2

	Per Child Per Month Cost	Annual Cost
United HealthCare - *Quote based on healthy 9 yr. old male child in 21201 zip code* - *Low deductible plan with $35 copay for doctor visits*	$111.45	$1,337.40
Coventry - *Quote based on healthy 9 yr. old male child in 21201 zip code* - *A lower deductible plan with a 80/20 coinsurance (child pays 20% of bill once deductible is met)*	$93.01	$1,116.12
Maryland Health Insurance Plan (PPO Plan) - *$1,000 medical deductible and $250 Drug Deductible*	$189 or $246	$2,268 - $2,952

Note: Costs do not include dental or vision coverage. Dental and vision coverage in private market are separate policies. Individuals with pre-existing conditions covered under MHIP pay the higher-end premium amount for the first year; after which they begin paying the lower amounts.

Option 2: Fewer Mandates

The annual premiums for an MCHP-buy-in product could be lower if the program offers fewer benefits. Hospital, physician, and pharmacy are the key cost drivers.[6] By limiting coverage for these services, monthly premium amounts would decrease substantially.

By not covering certain services that high-cost children tend to use, *e.g.*, specialty mental health and private duty nursing, the negative effects of adverse selection may be mitigated somewhat should high cost children opt against enrolling due to the benefit design.[7]

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[6] The percentages are as follows: hospital (35 percent) physician (24 percent), and pharmacy (14 percent). Percentages are based on the average MCHP PMPM cost of $169, which includes administrative costs.

[7] The Mental Health Parity Addiction Equity Act of 2008 does not require plans to offer mental health or substance use disorder benefits; however, it does require parity if these benefits are offered. The Act only applies to group health plans offered by employers with greater than 50 employees.

Option 3: Child Appropriate Benefits

Federal rules require the MCHP benefit package to cover all appropriate child services, and the MCHP costs reflect only services used by children. In order to substantially decrease the premium level, however, key benefits that children use must be limited or not covered.

MCHP-Buy-In Program: Impact on Existing Programs

While expanding access to care for Maryland's children through an MCHP-buy-in plan is one option, there are several concerns that require consideration before implementing such a program. First, expanding access to care has a sizeable economic as well as staffing impact on the Medicaid program. Additional enrolled children would require an expansion in the HealthChoice MCOs' physician networks, many of which are already approaching capacity. Creating the administrative infrastructure for a different benefit package also requires an investment of resources. Computer systems would need to be programmed to identify and pay providers. These are significant one-time start up costs that would require an economic investment by the State. Although eligibility screening would be simpler since income or assets would not be validated or considered, staff would still need to process applications and input enrollees into the system. Several existing contracts, such as the HealthChoice enrollment broker, pharmacy vendor, and utilization review agents, would need to be modified as well to handle the additional population. These costs could be built into the premium but if enrollment falls short of projections state resources would need to cover any shortfall.

Other State Programs

Buy-in program enrollment levels are low in similarly situated states, such as Pennsylvania. Pennsylvania offers a full buy-in product for children whose family incomes are above 300 percent of the FPL. The full buy-in program, which started in February 2007, has only 1,803 children enrolled as of December 2008. The State negotiates rates with various insurance companies across the state. Currently, the State has eight different contracts, but not all of the plans are offered statewide. Children apply directly to one of the insurance plans offered in their geographic area.

In Maryland, private options currently available compare favorably to an MCHP-buy-in-plan for a healthy child, and it is doubtful that the State would be successful in negotiating significantly lower rates.

Conclusion

There are several options to expand health care insurance for children with family incomes above 300 percent of the FPL. For a healthy child, an MCHP-buy-in-plan compares favorably to private option plans currently offered in the Maryland market. Because MHIP costs are comparable now to those associated with assisting sicker children under MCHP, likely consumers will not benefit from significant financial savings from an additional option in the form of an MCHP-buy-in-plan. Offering such an alternative requires that the State devote scarce resources to the start-up costs associated with an MCHP buy-in-plan with a potentially limited return for consumers. Plus it risks duplicating efforts already offered in the marketplace.

Another viable alternative, however, is a limited benefit package. Such a program offers the opportunity to offer consumers a lower cost benefit plan. The drawback is that to actually lower costs, key services – such as hospital services – must be limited. Maryland’s experience with limited benefit designs in the small group market has been very limited interest. This is consistent with many other states efforts to offer limited benefit policies. In addition, there will be start-up costs and financial risks, although the extent of such expenses is as yet unclear.