New Hampshire Fiscal Policy Institute

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New Hampshire Fiscal Policy Institute

Before the New Hampshire House of Representatives Finance Committee Regarding HB 1 and the Proposed Closure of the New Hampshire Healthy Kids Corporation

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The New Hampshire Fiscal Policy Institute (NHFPI) appreciates the opportunity to appear before the Committee today and to highlight concerns related to the Governor's proposal to close the New Hampshire Healthy Kids Corporation and to convert its enrollees into Medicaid enrollees. The New Hampshire Fiscal Policy Institute is an independent, non-partisan organization dedicated to exploring, developing, and promoting public policies that foster economic opportunity and prosperity for all New Hampshire residents, with an emphasis on low- and moderate-income families and individuals. We recognize that in creating the state's budget for the coming biennium you face many difficult tradeoffs - many of which are unavoidable in the absence of additional revenue - and all of which will be wrenching for residents of our state to experience. We hope to provide you with reliable, accurate information as you weigh the choices before you.

The Governor has proposed ending the state's association with the New Hampshire Healthy Kids Corporation and bringing its operations inside the state Medicaid program in order to save a projected $6.6 million in General Funds over the FY12-13 biennium. New Hampshire Healthy Kids administers the state's Children's Health Insurance Program, also known as Healthy Kids Silver. It provides subsidized health insurance to approximately 8,600 children with family incomes between 185 and 300 percent of the federal poverty level (FPL). To receive coverage, families pay a small, monthly premium per child depending on their incomes. Enrollees are provided care by a managed care organization, Harvard Pilgrim Health Care, which helps to coordinate care (and thereby manage costs) for its enrollees through primary care providers. New Hampshire Healthy Kids also administers a health insurance buy-in program for more than 800 children with family incomes between 300 and 400 percent of FPL by providing them with non-subsidized, lower-priced insurance premiums. Buy-in program enrollees use the same provider network and receive the same benefits as the Healthy Kids Silver enrollees.

The Governor has characterized this change as primarily reducing administrative costs. Yet, at present, the administrative costs incurred by New Hampshire Healthy Kids appear to be only approximately $900,000 per fiscal year. Based on public testimony

by officials from the Department of Health and Human Services, the Governor's budget – in order to achieve the full $6.6 million in anticipated savings – assumes that Healthy Kids Silver enrollees will be converted into Medicaid enrollees and the buy-in program will be discontinued. Children with incomes between 185 and 300 percent of FPL would continue to receive health insurance coverage and continue paying the same monthly premiums, but the state would pay for such coverage on a fee-for-service basis. DHHS officials have also noted that the buy-in program will be discontinued because it will not be feasible to convert buy-in enrollees into Medicaid enrollees or to continue to provide the current benefit and premium schedule to approximately 800 children.

The administration asserts that the savings will be realized primarily because the Medicaid fee-for-service reimbursement rate is significantly lower than the Healthy Kids Silver per member per month rate – and that this difference will yield most of the $6.6 million projected savings. However, shifting enrollees to a fee-for-service arrangement without the cost controls and care coordination of a managed care system may produce unanticipated changes in the average per member per month cost. That is to say, it is unclear whether Medicaid, with no managed care contract and no additional staff, will be able to hold a lower per member per month cost constant in the absence of other utilization and care coordination controls.

The differences between managed care and fee-for-service are substantial. A managed care organization (MCO) is responsible for the health of a defined population and for the entire spectrum of care for that population. Consequently, contacts are initiated not only by a sick patient but also by the MCO. A MCO also has a variety of clinical management systems for modifying or managing the actions of physicians. In contrast, a fee-for-service system has no defined population for which it is responsible. A payor is responsible for paying the bills. Contacts with the system are initiated by the sick patient and the focus is on treating a sick patient, not on for the spectrum of care or the whole health of a patient or a patient population. Moreover, where there is uncertainty about the level of care to be provided, there is a financial incentive to overuse care. Within fee-for-service, there is no clinical management system for managing physician decision making. Theoretically, managed care should yield savings through predictable costs, a slowing of cost growths, improved health outcomes of the patient population and efficient use of health care resources.

Data regarding utilization by Healthy Kids Silver enrollees and Medicaid enrollees in the state's October 2010 report, Children's Health Insurance Programs in New Hampshire, bear out that utilization patterns between Healthy Kids Silver enrollees and Medicaid enrollees are different. Children in Healthy Kids Silver enrollees had higher rates of access to primary care practitioners, accessed primary care practitioners more quickly after enrollment and had higher rates of well-child visits (preventive and wellness care) than Medicaid enrolled children. Primary care and preventive care help to avoid unnecessary hospitalizations and inappropriate use of emergency departments, which in turn reduce costs. The same report reveals that the rate of inpatient hospitalization and outpatient emergency department visits, and in particular outpatient emergency department use where an alternative setting of care could have been more

appropriate, were significantly lower for Healthy Kids Silver enrollees than for Medicaid enrollees. It is notable that the state proposes to end a mature, and seemingly effective managed care program while it simultaneously moves to enroll the remainder of the Medicaid population into a Medicaid Managed Care reimbursement arrangement, presumably to enjoy savings achieved through care coordination and cost controls.

In sum, such utilization trends as well as the structural differences between fee-for-service and managed care call into question whether Medicaid can hold constant a lower per member per month cost in the absence of cost controls and care coordination, especially if newly converted Medicaid enrollees adopt utilization patterns similar to the traditional Medicaid fee-for service children's population in the absence of familiar managed care structures. If that lower reimbursement rate cannot be achieved, the savings anticipated by the Governor's budget may not be realized.

Thank you for your attention and consideration. NHFPI seeks to be a resource to you and to your colleagues as you complete the difficult task of crafting the state's budget. If I can be of further assistance, please do not hesitate to contact me at 603-518-4495 or dfournier@nhfpi.org.