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issue brief

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Roy Proposal A Poor Alternative to Medicaid Expansion

In recent testimony before New Hampshire's Commission to Study Expanded Medicaid Eligibility, Avik Roy, a Senior Fellow at the Manhattan Institute for Policy Research, presented an alternative to expanding Medicaid under the Affordable Care Act. While many of the details of the plan remain unknown, it seems likely that it would cover far fewer people than the expansion New Hampshire is now considering, would impose unaffordable out-of-pocket costs on participants, and would forgo the economic benefits of accepting billions of dollars in federal funds. Even those elements of the proposal that might be viewed as positive – such as its acknowledgement of the importance of primary care and efforts to incorporate cost-sharing – are poorly deployed. Consequently, the Medicaid Commission should not include the proposal among its recommendations when it reports to the Legislature next month.

The Basic Elements of the Roy Proposal

Under the Affordable Care Act (ACA), states may accept federal funds to pay for the overwhelming majority of costs related to providing Medicaid coverage to adults with incomes under 138 percent of the federal poverty level (FPL), beginning in January 2014. States can, in some instances, use those funds to pay premiums for private sector health insurance, whether sponsored by an employer or purchased on the individual insurance market, rather than for Medicaid coverage.

Under the Roy proposal, New Hampshire would reject all such federal funds and instead use only its own budgetary resources to provide health coverage to some of the individuals who would otherwise be eligible for the newly-expanded Medicaid program. In particular, the Roy proposal would extend only to uninsured adults with incomes below the federal poverty level. Adults with incomes between 100 and 138 percent of the FPL would be required to find insurance elsewhere, presumably the Insurance Marketplace where subsidies would be available.

Moreover, the health coverage available under the Roy proposal would be quite limited. The proposal calls for New Hampshire to build an insurance policy that would provide catastrophic coverage as well as a network of providers who would agree to accept a monthly retainer, approximately $100 per enrollee per month, to be essentially on call for any enrollees.[i,ii] Importantly, this latter element, known as concierge medical service, does not typically cover some of the most fundamental components of health care, such as prescriptions, surgery, hospitalizations, some technological diagnostic procedures like MRIs, mental health care, or substance abuse treatment. The catastrophic coverage envisioned by the Roy proposal would

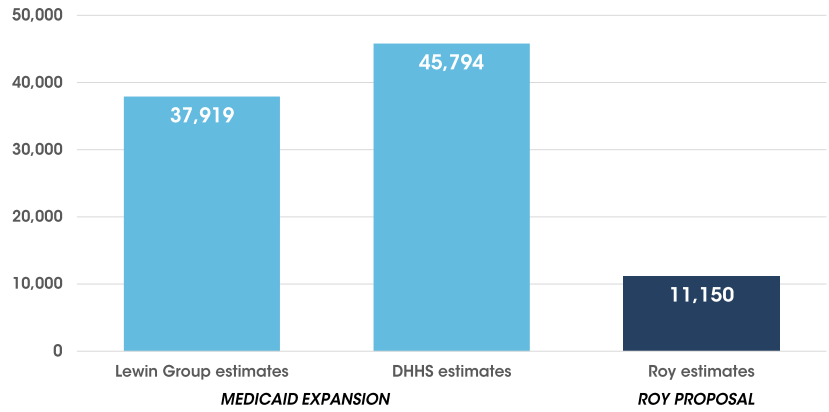
entail a $5,950 deductible for any needed non-concierge services as well as an enrollment fee of $412 per person. Finally, anyone who failed to meet a two-year work requirement would be ineligible to participate in the Roy plan.

Reduction in Uninsured Would Be Significantly Lower Than in Other Scenarios

A report issued earlier this year by The Lewin Group projects that, if New Hampshire were to move forward with the Medicaid expansion as included in the ACA, 58,000 of approximately 100,000 newly eligible New Hampshire adults would participate by 2020. Of that group, roughly 37,900 are currently uninsured, while the remaining 20,500 enjoy some form of insurance.[iii] Based on that same report, New Hampshire's Department of Health and Human Services estimated in July that about 63,000 newly eligible adults would join Medicaid under the expansion, with approximately 46,000 uninsured and 17,000 currently insured participating.[iv]

Reduction in Uninsured Would Be Significantly Lower Under Roy Proposal

Projected Reduction in Uninsured New Hampshire Residents Under Contrasting Approaches



Sources: Lewin Group, NH Department of Health and Human Services, Testimony before the Commission to Study Expanded Medicaid Eligibility, September 10, 2013

In contrast, figures accompanying Roy's testimony before the Medicaid commission suggest it would cover 11,150 of the currently uninsured, due, in part, to the proposal's work requirement. In other words, the Roy proposal would cover 71 percent fewer uninsured than the Lewin Group initially estimated and 76 percent fewer uninsured than DHHS projects.

Out-of- Pocket Costs and Minimal Coverage Would Leave Recipients Underinsured

As noted, the Roy proposal would impose a $5,950 annual deductible on each participant and an enrollment fee of $412 per person.[v] To put those sums in perspective, the average deductible for an individual in the group market in New Hampshire was $1,393 in 2011.[vi] The national average deductible for an individual in the non-group market in 2011 was $2,935.[vii] Assuming that each individual taking part in the Roy proposal earns less than the federal poverty level of $11,490, the out-of-pocket costs assumed could represent 55 percent or more of annual income for these participants. This would leave recipients underinsured, which is frequently defined as contributing 10 percent or more of annual income towards health insurance costs.

To put the scale of this cost-sharing into further perspective, under the Medicaid expansion envisioned in the ACA, cost-sharing in the form of deductibles, co-insurance, and co-payments is allowed so long as it is generally no more than five

percent of household income.[viii] For an individual with income of $11,490, five percent of household income is $575. However, neither the Lewin Group's assessment nor NH DHHS' projections assume any additional cost-sharing devices beyond those currently used by NH Medicaid.[ix]

While cost-sharing may be an attractive component of a Medicaid expansion, if it is bluntly and aggressively applied to all services, it may be counter-productive. Even nominal cost-sharing can deter the use of health care by low-income people.[x] This, in turn, may lead to reduced utilization because the cost-sharing reduces the use of care - even effective and essential care - as well as optional care.[xi] Unless cost-sharing is deployed strategically around only those services with the lowest value, it may well backfire and result in higher costs, rather than smart use of health care resources.

Roy Proposal Would Leave Billions in Federal Funds on the Table

The Roy proposal presumes that New Hampshire does not accept the federal dollars available to it to extend health insurance to low-income residents. The Lewin Group projects that New Hampshire would receive a total of up to $2.5 billion in federal Medicaid payments between 2014 and 2020 if it were to move forward with the expansion. As a result of these federal dollars, New Hampshire would experience increases in gross state product, personal income, and employment. Under an expanded Medicaid program, health care providers of all stripes will see significant decreases in bad debt and charity care costs. In its report, the Lewin Group makes it plain that: "the ACA significantly boosts NH's economy and revenues, and Medicaid expansion maximizes these economic and fiscal impacts."[xii]

If the Roy proposal were enacted as an immediate substitute for the Medicaid expansion in 2014, New Hampshire would incur an annual General Fund cost of $46 million, without reaping any of the economic benefit of federal dollars coming into its economy.[xiii] What's more, the state would be unlikely to realize other expenditure or revenue offsets elsewhere in the budget, offsets that would be generated specifically by expanding Medicaid coverage. Forgoing the Medicaid expansion would also significantly affect the managed care organizations (MCOs) hired to administer New Hampshire's Medicaid program. The MCOs would not receive any of the business associated with the Medicaid expansion that was anticipated in the third agreement year of the original contracts. At a minimum, those contracts will have to be renegotiated and the savings desired from that initiative would be at risk.

Conclusion

The proposal recently offered before the New Hampshire Medicaid Commission would cover far fewer people than the program expansion New Hampshire is now considering, would impose unaffordable out-of-pocket costs on participants in the proposal, and would forgo the economic and fiscal benefits of accepting billions of dollars in federal funds. Even those elements of the proposal that might be viewed as positive – such as its acknowledgement of the importance of primary care and efforts to incorporate cost-sharing – are poorly deployed. Consequently, the Commission should not include the proposal among its recommendations when it reports to the Legislature next month.

[i] As defined in the ACA, a catastrophic plan covers essential health benefits, but only after out-of-pocket cost-sharing reaches a high deductible that will match the level of the ACA's required out-of-pocket maximum. In 2014, it is anticipated that threshold will be $6,400 for self-only coverage and $12,800 for family coverage. In 2014, catastrophic plans can be offered both on and off the Exchange. Catastrophic plans may only be offered to individuals who are under age 30 before the plan year begins, have received a certification from the Marketplace that they are exempt from the individual mandate because they do not have an affordable coverage option, or because they qualify for a hardship exemption. No subsidies are available for such products.

[ii] If the proposal is read less generously, then even primary care services would be unavailable until after the deductible was paid, leaving many recipients without any actual access to care.

[iii] The Lewin Group estimates 37,919 uninsured and 20,513 currently insured with minor disenrollments in a variety of other categories. The Lewin Group does not directly address the likely behavior of the remaining 42,000 eligible non-participants.

[iv] NH DHHS projects 45,794 uninsured and 16,996 currently insured, with minor disenrollments in a variety of other categories.

[v] Again, if the proposal is read less generously, then even primary care services would be unavailable until after the deductible was paid, leaving many recipients without any actual access to care.

[vi] Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends, 2003 and 2011 Medical Expenditure Panel Survey Insurance Component.

[vii] National Institute for Health Care Management, Spending for Private Health Insurance in the United States, Data Brief, Figure 6, pp. 8, January, 2013.

[viii] Social Security Act, §1916(A)(b)(1)(B)(ii) and 42 CFR §447.56. Premiums are permitted for some Medicaid beneficiaries with income above 150 percent of the federal poverty level.

[ix] New Hampshire Medicaid currently employs $1 co-pays for prescriptions. Premiums are paid by employed adults with Medicaid with incomes above 150 percent FPL.

[x] Premiums and Cost-Sharing in Medicaid: A Review of Research Findings, Kaiser Family Foundation, February 2013

[xi] Ibid.

[xii] Lewin Group PowerPoint presentation, slide 41, January 11, 2013.

[xiii] If the state defers the implementation of the Roy proposal until 2022, it would be rejecting any coverage for the low-income uninsured until such time. This effectively leaves at least 22,300 people uninsured over the next 8 years. If the state then instituted the proposal in 2022, New Hampshire could face financial exposure beyond $46 million per year, since the substantial majority of the would-be Medicaid eligibles have income below the poverty level. Thus, any loss of health insurance experienced by this population in the intervening 8 years would increase the number of people who are eligible for the program. In addition, the economic benefit of reduced bad debt and charity care that all providers would have experienced under the Medicaid expansion will largely be erased.