Affordable Care Act: Impact on the Indiana Market

Seema Verma
President
SVC, Inc
Affordable Care Act

• Key accomplishment is access
  ▫ ~48.6 million uninsured in America*
  ▫ ~800 thousand uninsured in Indiana*
• Addresses the underlying causes of uninsurance
  ▫ Affordability for low income people
    • Potential Medicaid Expansion to low income adults
      • Below 138% FPL
      • $15,415 annual income for single, $31,809 for family of four
    • Tax Credits
      • 100-400% FPL
      • Total credit amount based on income and cost of insurance

• Insurance rules
• Requirements for employers

Individual Mandate

- Individual Tax Penalty
  - Those without insurance or an exemption pay the greater of:

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum Penalty</td>
<td>1% of taxable income</td>
<td>2% of taxable income</td>
<td>2.5% of taxable income</td>
</tr>
<tr>
<td>Minimum Penalty</td>
<td>$95</td>
<td>$325</td>
<td>$695</td>
</tr>
<tr>
<td>Income level</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>where max %</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>penalty applies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>&gt;$9,500 taxable income</td>
<td>&gt;$16,500 taxable income</td>
<td>&gt;$27,800 taxable income</td>
</tr>
</tbody>
</table>

- Exemptions:
  - Affordability (coverage costs > 8% of income)
  - Religious
  - Indian status
## Advanced Premiums Tax Credits & Cost Sharing Estimates

<table>
<thead>
<tr>
<th>FPL</th>
<th>Estimated Income*</th>
<th>PTC required % of income contribution</th>
<th>Estimated annual contribution*</th>
<th>Cost Sharing Reduction: Silver Plan AV</th>
<th>Decrease in cost sharing**</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;133%</td>
<td>&lt;$14,856</td>
<td>2%</td>
<td>&lt;$297</td>
<td>94%</td>
<td>80%</td>
</tr>
<tr>
<td>133-150%</td>
<td>$14,856 - $16,755</td>
<td>3% to 4%</td>
<td>$445 - $670</td>
<td>94%</td>
<td>80%</td>
</tr>
<tr>
<td>150-200%</td>
<td>$16,755 - $23,340</td>
<td>4% to 6.3%</td>
<td>$670 - $1407</td>
<td>87%</td>
<td>57%</td>
</tr>
<tr>
<td>200-250%</td>
<td>$22,340 - $27,925</td>
<td>6.3% to 8.05%</td>
<td>$1407 - $2248</td>
<td>73%</td>
<td>10%</td>
</tr>
<tr>
<td>250-300%</td>
<td>$27,825 - $33,510</td>
<td>8.05% to 9.5</td>
<td>$2248 - $3183</td>
<td>70%</td>
<td>0%</td>
</tr>
<tr>
<td>300-400%</td>
<td>$33,510 - $44,680</td>
<td>9.5%</td>
<td>$3183 - $4245</td>
<td>70%</td>
<td>0%</td>
</tr>
<tr>
<td>&gt;400%</td>
<td>&gt;$44,680</td>
<td>Not eligible for PTC</td>
<td>&gt;$4245</td>
<td>70%</td>
<td>0%</td>
</tr>
</tbody>
</table>

* Estimated income and contribution based on 2012 FPL for an individual selecting the second lowest cost silver plan
** Decrease in cost shows the decrease from a silver plan
Affordability Clause- Employer Sponsored Coverage

• Individuals are not eligible for premium tax credits if they have access to affordable employer sponsored coverage
• Definition of affordable employer sponsored coverage:
  ▫ For individual coverage employee contribution may not exceed more than 8% of household income
  ▫ Affordability for dependents made in reference to cost of coverage for employee and dependents
    • Affordability determination for employee and dependents is separate
Employer Mandate

• Employers > 50 fulltime equivalent employees subject to penalties if fulltime employee(s) receive a premium tax credit
  • Employees can only receive a premium tax credit if:
    • Between 100% and 400% FPL
    • Employer coverage is unavailable or if single coverage costs more than 9.5% household income

<table>
<thead>
<tr>
<th>Employer Penalties</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employers offering coverage to at least 95% of full-time employees</td>
</tr>
<tr>
<td>• Pay a penalty of the lesser of:</td>
</tr>
<tr>
<td>• $3,000 per employee receiving a premium tax credit, or</td>
</tr>
<tr>
<td>• $2,000 for every employee full-time and full time equivalent employee, excluding the first 30 employees</td>
</tr>
</tbody>
</table>
## How does market size change by 2019?

<table>
<thead>
<tr>
<th>Source of Health Insurance</th>
<th>2010 Estimate</th>
<th>2019 Projection</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Uninsured</strong></td>
<td>875,000</td>
<td>300,000 – 525,000</td>
</tr>
<tr>
<td><em><em>Public Programs</em> (with Medicaid Expansion)</em>*</td>
<td>950,000</td>
<td>1,450,000 – 1,625,000</td>
</tr>
<tr>
<td><strong>Individual Insurance</strong></td>
<td>200,000</td>
<td>450,000 - 875,000</td>
</tr>
<tr>
<td><strong>Employer-Sponsored Insurance</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insured Small Group (2-50 employees)</td>
<td>300,000</td>
<td>225,000 – 300,000</td>
</tr>
<tr>
<td>Insured Large Group (51+ employees)</td>
<td>475,000</td>
<td>350,000 - 475,000</td>
</tr>
<tr>
<td>Self-Funded (All employer sizes)</td>
<td>2,825,000</td>
<td>2,850,000 – 3,125,000</td>
</tr>
<tr>
<td><strong>Total Indiana Residents Ages 0 to 64</strong></td>
<td>5,625,000</td>
<td>6,200,000 – 6,500,000</td>
</tr>
</tbody>
</table>


Assumes that Indiana does not offer a federal basic health program.
Insurance Market Changes

• Limits Insurance Companies Profits:
  ▫ Medical Loss Ratio (MLR)
    ▪ 80% for individual
    ▪ 85% for large group & small group insurers
  ▪ Insurers with lower MLR will be required to issue refunds to enrollees
• Unreasonable Rate Review
  ▪ Federal and state review of unreasonable premium increases
• Community Rating
  ▪ Premiums based on age, location, and smoking status
  ▪ No pre-existing condition exclusions allowed
• Elimination of lifetime and annual maximum coverage limits
• Adult dependent coverage to age 26
• Expanded coverage of preventive services
How does premium cost change by in Indiana by 2019?

- **Milliman estimates:**
  - **Individual market:**
    - Total 75% to 95% premium increase
      - Merging high risk pool with individual market – 35% to 45%
      - Essential benefits/benefit expansion – 20% to 30%
    - Additional factors:
      - Risk pool composition changes
      - Provider cost shifting
      - Manufacturer and carrier pass-throughs
  - **Small group market:**
    - Total 5% to 10% premium increase
      - Risk pool composition due to items such as:
        - Employers dropping coverage
        - Inclusion of employers up to 100 in small group market
        - Election of self-funded plans in community rating environment

What is a Health Insurance Exchange (HIX)?

- Individual HIX & Small Business Health Options Program (SHOP)
- More than a web-based marketplace (“Expedia”) – shop & purchase insurance and:
  - Eligibility for:
    - Medicaid
    - Advanced Payment of Premium Tax Credits (APTCs) and Cost Sharing Reductions (CSRs)
    - Individual Mandate Exemptions
  - Certifies Qualified Health Plans (QHPs) - determines which plans can be offered on Exchange
  - Enrollment in QHPs
  - Collects & publishes quality data on health plans
  - Premium collection & premium aggregation for small businesses
  - Education & outreach
  - Option to administer Risk Adjustment & Reinsurance for health plans
Small Business Health Options Program (SHOP) Exchange

- SHOP will offer small employers the opportunity to purchase coverage for employees
- Eligible Employers
  - 2014 to 2017 Employers with <50 employees or
    - At state option <100 employees
  - After 2017 Employers <100 employees or
    - At state option, of any size
- Employers using the SHOP
  - Can use brokers in the SHOP or use SHOP independently
  - Choose a metal level for employees or a specific plan or plans
  - Reference plan selected for setting contributions
  - Employers pay SHOP and SHOP remits payments to carriers
## Potential Users of an Indiana Exchange?

<table>
<thead>
<tr>
<th></th>
<th>Without ACA – 2017 Projection</th>
<th>Estimated Exchange Enrollees 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Individual Exchange</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employer Coverage 139% FPL to 400% FPL</td>
<td>1,699,914</td>
<td>101,816</td>
</tr>
<tr>
<td>Individual Coverage 139% to 399% FPL</td>
<td>130,734</td>
<td>119,444</td>
</tr>
<tr>
<td>Individual Coverage above 400% FPL</td>
<td>100,980</td>
<td>10,098</td>
</tr>
<tr>
<td>Currently Uninsured 139-399% FPL</td>
<td>396,856</td>
<td>354,311</td>
</tr>
<tr>
<td>Currently Uninsured, above 400% FPL</td>
<td>53,496</td>
<td>8,024</td>
</tr>
<tr>
<td>Other coverage 139%+</td>
<td>221,129</td>
<td>44,226</td>
</tr>
<tr>
<td>Total- Individual Exchange</td>
<td>2,603,109</td>
<td>637,919</td>
</tr>
<tr>
<td><strong>SHOP Exchange</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employers with less than 50 Employees</td>
<td>904,441</td>
<td>42,286</td>
</tr>
<tr>
<td>Employees with 50 to 99 Employees</td>
<td>202,359</td>
<td>5,603</td>
</tr>
<tr>
<td>Total- SHOP Exchange</td>
<td>1,106,800</td>
<td>47,889</td>
</tr>
<tr>
<td><strong>Total- Indiana Exchange 2017</strong></td>
<td>3,709,909</td>
<td>685,810</td>
</tr>
</tbody>
</table>
Essential Health Benefits

• The ACA requires all non-grandfathered health plans in the individual and small group market to offer the Essential Health Benefits starting in 2014

1. Ambulatory patient services
2. Emergency services
3. Hospitalization
4. Maternity and newborn care
5. Mental health and substance abuse disorder services, including behavioral health treatment
6. Prescription drugs
7. Rehabilitative and habilitative services and devices
8. Laboratory services
9. Preventive and wellness services and chronic disease management
10. Pediatric services, with oral and dental

• EHB benchmarked to benefits offered in a plan
• Indiana’s EHB benchmark plan is the largest small group plan in the state
Actuarial Value

- All plans on and off the Exchange required to offer EHB will be categorized by Actuarial Value (AV)
- Bronze, Silver, Gold, Platinum
  - AV refers to the percentage of expected medical cost that will be paid by the health plan
  - On Exchange PTC subsidy amount is indexed to the 2nd lowest cost Silver Plan

<table>
<thead>
<tr>
<th>Plan Level</th>
<th>Estimated total costs covered by health plan</th>
<th>Estimated total costs covered by enrollee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bronze</td>
<td>60%</td>
<td>40%</td>
</tr>
<tr>
<td>Silver</td>
<td>70%</td>
<td>30%</td>
</tr>
<tr>
<td>Gold</td>
<td>80%</td>
<td>20%</td>
</tr>
<tr>
<td>Platinum</td>
<td>90%</td>
<td>10%</td>
</tr>
</tbody>
</table>
Operation of the Exchange

- Federal
- State
- Partnership
  - Outreach Functions
  - QHP Certification
- States can change with 12 month notification
- Federal grant funds through 2015 for establishment and operations
- Indiana’s decision
Status of State Exchange Decisions

Note: Based on literature review as of 02/06/13. All policies possible to change without notice.
Source: Politico.
Key Challenges for Exchanges

- Federal government running the majority of exchanges
- Exchanges begin enrollment 10/13
- Defined open enrollment periods
- Interfaces between states & exchange yet to be established or tested
- Will they lower cost?
Medicaid Expansion

- Impact of the Supreme Court Decision
- Optional expansion of Medicaid to all persons under 138% of FPL through Medicaid
- 100-400% FPL: eligible for tax credits via the exchange
- No deadline for decision but enhanced rates on schedule below

<table>
<thead>
<tr>
<th>Year</th>
<th>Federal Medicaid Match for “Newly Eligible”</th>
<th>State Share for “Newly Eligible”</th>
<th>Administrative Match</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-2016</td>
<td>100%</td>
<td>$0</td>
<td>50%</td>
</tr>
<tr>
<td>2017</td>
<td>95%</td>
<td>5%</td>
<td>50%</td>
</tr>
<tr>
<td>2018</td>
<td>94%</td>
<td>6%</td>
<td>50%</td>
</tr>
<tr>
<td>2019</td>
<td>93%</td>
<td>7%</td>
<td>50%</td>
</tr>
<tr>
<td>2020 on</td>
<td>90%</td>
<td>10%</td>
<td>50%</td>
</tr>
</tbody>
</table>
Uninsured in Indiana

- Approximately 13% of Hoosiers are uninsured
  - This equates to ~800,000 individuals under the age of 64 who do not have insurance
  - An estimated 400,000 are between 100% and 400% FPL and may be eligible for subsidies in the Exchange

<table>
<thead>
<tr>
<th>FPL</th>
<th>&lt;100% FPL</th>
<th>100% FPL to 138% FPL</th>
<th>139% FPL to 250% FPL</th>
<th>251% FPL to 399% FPL</th>
<th>&gt;400% FPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012 Annual Income - family of 4</td>
<td>&lt;$23,050</td>
<td>$23,051 to $31,809</td>
<td>$31,810 to $46,100</td>
<td>$46,101 to $69,150</td>
<td>&gt;$69,150</td>
</tr>
<tr>
<td>Uninsured</td>
<td>302,700</td>
<td>85,300</td>
<td>220,800</td>
<td>93,600</td>
<td>98,000</td>
</tr>
<tr>
<td>% of Uninsured</td>
<td>38%</td>
<td>11%</td>
<td>28%</td>
<td>12%</td>
<td>12%</td>
</tr>
</tbody>
</table>


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### MEDICAID ACA COST IMPACT COMPONENTS: SFY 2014 - SFY 2020

<table>
<thead>
<tr>
<th>ACA Cost Components</th>
<th>Scenario 1: Woodwork</th>
<th>Scenario 2: 133% Expansion</th>
<th>Scenario 3: Full Exposure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baseline State Expenditures</td>
<td>$23,208.7</td>
<td>$23,208.7</td>
<td>$23,208.7</td>
</tr>
<tr>
<td>Medicaid Expansion Population</td>
<td>$0</td>
<td>$617.6</td>
<td>$784.2</td>
</tr>
<tr>
<td>Woodwork Effect Population</td>
<td>600.1</td>
<td>600.1</td>
<td>810.4</td>
</tr>
<tr>
<td>Physician Fee Schedule Increase</td>
<td>0.0</td>
<td>581.4</td>
<td>610.6</td>
</tr>
<tr>
<td>Foster Children Expansion to Age 26</td>
<td>22.0</td>
<td>22.0</td>
<td>22.0</td>
</tr>
<tr>
<td>Health Insurance Tax</td>
<td>122.8</td>
<td>138.3</td>
<td>147.7</td>
</tr>
<tr>
<td>Administrative Expenses</td>
<td>84.2</td>
<td>337.9</td>
<td>435.5</td>
</tr>
<tr>
<td>CHIP Program – Enhanced FMAP</td>
<td>(176.2)</td>
<td>(176.2)</td>
<td>(176.2)</td>
</tr>
<tr>
<td>Breast and Cervical Cancer Program</td>
<td>(1.1)</td>
<td>(43.7)</td>
<td>(43.7)</td>
</tr>
<tr>
<td>Pregnant Women &gt; 150% FPL</td>
<td>(40.1)</td>
<td>(40.1)</td>
<td>(40.1)</td>
</tr>
<tr>
<td>Total ACA Cost Increase</td>
<td>$611.7</td>
<td>$2,037.3</td>
<td>$2,550.5</td>
</tr>
<tr>
<td>Total State Spending</td>
<td>$23,820.5</td>
<td>$25,246.1</td>
<td>$25,759.3</td>
</tr>
</tbody>
</table>

**Notes:**
- Already included in the SFY 2014 - 2020 Baseline Expenditures:
  - $610 million projected State dollar savings from conversion to 1634 from 209(b)
- NOT included in the SFY 2014 - 2020 Baseline Expenditures:
  - $383 million projected State dollar additional cost if Disabled threshold raised to 100% FPL. Expanding Disabled threshold to 100% FPL would require legislative change
  - $575 million projected State dollar additional cost if the State does not receive the enhanced FMAP on first 36,500 HIP enrollees
Total State Medicaid Cost with Expansion
FY2014-FY2020

Total State Costs 2014-2020: $23.8-$25.7B

Millions

<table>
<thead>
<tr>
<th>Year</th>
<th>Current Program</th>
<th>Woodwork</th>
<th>Expansion</th>
<th>Expansion at Full Participation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$3,091.6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>$3,293.6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>$3,330.4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>$3,581.1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>$3,879.9</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>$4,122.1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>$4,460.6</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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ACA & Expansion State Costs
SFY 2014-2020 *

Total State cost $612 M to $2.6 B

*Includes claims and administrative costs
Expansion
Federal Funds: 2014-2020

Total Expansion Federal Funds $20.4 B to $26.4 B

*Includes claims and administrative funds

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## Implications of Medicaid Expansion

<table>
<thead>
<tr>
<th></th>
<th>Expansion</th>
<th>No Expansion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicaid Enrollment</td>
<td>Increase of 350,000-575,000 in Medicaid; 1 in 4 Hoosiers</td>
<td>100,000 new enrollees due to woodwork effect</td>
</tr>
<tr>
<td>New costs (2014-2020)</td>
<td>$1.7 - $2.6B. State needs new revenue source by 2017-2018</td>
<td>~$612M</td>
</tr>
<tr>
<td>Coverage</td>
<td>Open-ended entitlement</td>
<td>Coverage gap for those below 100% FPL: 21% of Indiana population or 350,000 uninsured</td>
</tr>
<tr>
<td>Economic Impact</td>
<td>Reduced cost-shifting to insured population.</td>
<td>Fines for employers with &gt;50 employees. Cost shifting to insured populations.</td>
</tr>
<tr>
<td></td>
<td>Growth in health care sector.</td>
<td></td>
</tr>
<tr>
<td>DSH</td>
<td>Reduction of 50% by 2019</td>
<td>Reduction of 50% by 2019</td>
</tr>
</tbody>
</table>
Federal Budget Issues

• Fiscal Cliff Discussions – blended match rate
• CBO
  ▫ New release 2/5/13
  ▫ Decreases estimate of individuals insured through Medicaid expansion and exchange subsides
    • Optional expansion
    • Lower exchange take-up rate
  ▫ Federal Medicaid & CHIP cost expected to increase from $260B in 2012 to $578B in 2023
    • 2014 to 2020 cost estimated at $4,435B
  ▫ Federal cost for the Exchange and tax subsidies estimated to increase from $21B in 2014 to $134B in 2020
    • 2014 to 2020 cost estimated at $949B
  ▫ Federal health programs expenditures expected to increase from 4.7% to 6.2% of GDP by 2020

Source: Congressional Budget Office, Budget and Economic Outlook. February 2013.
### Federal Spending Health Programs 2012-2023

- **Medicaid & CHIP**
  - 2012: $274 billion
  - 2014: $345 billion
  - 2016: $405 billion
  - 2018: $455 billion
  - 2020: $511 billion
  - 2022: $578 billion

- **Exchange and Subsidy Programs**
  - 2012: $42 billion
  - 2014: $95 billion
  - 2016: $111 billion
  - 2018: $122 billion
  - 2020: $134 billion

### Federal Projected Spending Health Programs % of GDP

- 2012: 4.7%
- 2014: 5.0%
- 2016: 5.5%
- 2018: 5.5%
- 2020: 5.8%
- 2022: 6.2%

Source: Congressional Budget Office, Budget and Economic Outlook. February 2013.
Status of State Medicaid Expansion Decisions

Note: Based on literature review as of 02/06/13. All policies possible to change without notice. Source: Politico.
Provider Impacts

- Increase in demand for services
  - Increase in number of insured individuals
  - Increase in covered benefits, required preventive services
  - Cost-sharing indexed to income
- Medicare and Medicaid Rate Increases
  - 10% Medicare bonus payment for primary care
  - 10% Medicare bonus payment to general surgeons in shortage areas
  - Medicaid reimbursements increase to match Medicare for primary care.
- ACOs
- Electronic Health Records
About SVC Consulting

• SVC, Inc. provides personalized, innovative and strategic health policy solutions
  ▪ SVC has specific expertise on a range of health care issues including:
    • Health Care Reform & the Affordable Care Act
    • Medicaid
    • The Health Indiana Plan (HIP)
    • Health Care Exchanges
    • Community Based Care
    • Aging and Disability
    • Managed Care
    • Private Insurance
    • Public Health Programs
    • Information Systems to Support Public Programs

• SVC’s range of services encompass:
  • Policy and Legislative Analysis
  • Waiver and State Plan Amendment
  • Development of Requests for Services
  • Grant and Proposal Development
  • Project and Grants Management
  • Management of Community and Stakeholder Relationships
  • Information Technology Project Management
  • Survey Development
  • Program Evaluation Design
  • Data Analysis

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