

HealthHub RI Planning Project

September, 2008

Background and Context: Affordable Health Insurance Initiative

The Rhode Island Affordable Health Insurance initiative is an effort by the Governor's Administration through its Office of the Health Insurance Commissioner (OHIC), the Lieutenant Governor and other stakeholders to develop strategies and initiatives to address the decline in private insurance coverage, and the rising cost of health insurance in Rhode Island.

In Rhode Island, as in other states, the high and rising cost of health insurance is driving growth in the number of residents who are uninsured. By 2005, the average cost of small-group family coverage in Rhode Island was \$993.67 per month, roughly 31% of average Rhode Island wages. It is therefore not surprising that from 2001 to 2005, the share of Rhode Islanders covered by employer sponsored insurance dropped from 73.9% to 67.6%¹, while the number of uninsured Rhode Islanders more than doubled.² (Table 1).

TABLE 1
PERCENT CHANGE IN PREMIUMS, WAGES, AND UNINSURED UNDER AGE 65: US AND RHODE ISLAND, 2001-2005

	United States	Rhode Island
Percent change in small group premiums per member per month		
Single coverage	38.1%	44.2%
Family coverage	42.9%	48.6%
Percent change in average wage	12.3%	15.3%
Percent uninsured (2001)	16.5%	9.0%
Percent uninsured (2005)	17.2%	13.3%

Sources: Premiums (MEPS-IC/AHRC – not adjusted for changes in benefits or cost sharing). Wages (DOL). Uninsured (CPS).

A number of states are working to address these trends through a combination of public coverage expansions and private sector reforms. In the past three years, Vermont, Maine and Massachusetts have enacted fairly comprehensive reforms aimed at achieving near-universal health insurance coverage; and many other states have enacted more incremental reforms. Massachusetts' reform has generated substantial national attention, as it includes a unique combination of individual and employer mandates, expansions of subsidized coverage, and a "Health Insurance Connector", to facilitate individual and small group purchasing.

Also similar to many other states, near-term efforts to address these trends in Rhode Island are constrained by recent fiscal challenges.³ The 2009 state budget included a \$430 million shortfall⁴, requiring substantial cuts in all aspects of state government. Medicaid reform was a critical element of these savings, targeting a 1.5% reduction in year over year spending (\$140 million in program savings in 2009 alone).

It is in the context of substantial short-term state fiscal constraints and Medicaid cost containment efforts, that we have established our agenda -- a combination of short and longer-term initiatives to address the issue of Affordable Health Insurance (Table 2). This agenda, listed below, can be categorized as follows:

¹ There was a substantial drop in employer-based coverage between 2000 and 2001, so if data from 2000 is considered, the share of RI'ers covered by employer sponsored insurance dropped more than 10%, from 77.7% to 67.6%

² In 2000, Rhode Island had the lowest percent of uninsured in the nation.

³ These budget challenges are not unique to Rhode Island – 29 states plus the District of Columbia faced a budget deficit in 2009. (MicNichol, Elizabeth "29 States Faced Total Budget Shortfall of at Least \$48 Billion in 2009" *Center on Budget and Policy Priorities*, August 5, 2008: <http://www.cbpp.org/1-15-08sfp.htm>)

⁴ MicNichol, Elizabeth "29 States Faced Total Budget Shortfall of at Least \$48 Billion in 2009" *Center on Budget and Policy Priorities*, August 5, 2008: <http://www.cbpp.org/1-15-08sfp.htm>

- Short-term reforms: Current initiatives targeting high-risk populations to stabilize the rate of uninsured
- Building Blocks: Initiatives that target longer-term structural improvements to improve access to affordable health insurance.
- Design and Planning: Planning for future implementation of comprehensive reform

Table 2: Affordable Health Insurance Project: Key Initiatives

	Short term reforms	Building Blocks of Comprehensive Reform	Comprehensive Reform: Design and Planning
Priority	<i>Short term initiatives targeting high risk populations to stabilize rate of uninsured, control costs</i>	<i>Expect little short term gain, but targeting longer-term structural improvements</i>	<i>Planning for future implementation – not to be implemented right away</i>
A	Medicaid delivery system/care management initiatives HEALTHpact Insurer rate review Small Group/Direct Pay Market Regulation State Employees Benefit Plan Changes Reduced benefit package for Rlte Care parents (Being done, separate study)	RI HealthHub Planning Medicaid Reform/Global Waiver Health Information Technology Electronic Health Record (EHR) and Health Information Exchange Primary Care/Medical Home Capacity Building	Legislative Task Force on Health Care Reform Insurance survey to determine # of uninsured by income, Medicaid eligibility level Cost of the Uninsured Evaluation of the costs “within the system” of health care for uninsured Rhode Islanders Medicaid multiyear forecasting and planning (Being done, separate study) Health Planning/Care Management Strategic Plan
B	Individual Mandate over 400% FPL Reintroduce legislation – advocate in General Assembly Section 125 Requirement Implementation	Provider/hospital payment reform Financing mechanisms Insurer surcharge on hospital costs Uncompensated care pool All Payor Database	Comprehensive Reform Evaluation Scenario design and analysis of options (Needs new data)
C		Direct Pay Reforms (High risk pool is funding) Minimum Benefits/Coverage Standards: Benefits modeling, public process/CHAT Employer Mandate Assess, refine, confirm	

In this context, planning for a Rhode Island health insurance exchange or “hub” is a critical building block for comprehensive reform. Given the decline of employer based health insurance, it is clear that a growing share of Rhode Islanders are and will be purchasing health insurance directly, rather than through their employers. We need to determine how best to support these individuals, and facilitate individual purchasing going forward. Examination of the exchange (or “HealthHub RI”) as both a purchasing mechanism and a policy setting entity is needed in order that this infrastructure is well understood and poised for implementation when mandates and coverage expansion opportunities come into play.

Objectives: Why would Rhode Island want an insurance hub?

HealthHub RI is intended to provide a variety of short and longer-term objectives:

1. Organize the market for health insurance: HealthHub RI is intended to facilitate individual purchasing by placing health insurance purchasing into a new model to achieve transparency, simplification and standardization. The Massachusetts Connector, for example, calls itself “the travelocity of health insurance”.
2. Enable transition to individual purchasing: As initially conceived, a health insurance exchange is a means for workers to use pretax earnings (via Section 125) to purchase health insurance. It allows a transition from an employer-based defined-benefit system in which employers purchase a benefit plan on behalf of employees, to a defined contribution system in which employees can use an employer contribution to purchase health insurance themselves.
3. Set the framework and policy decisions to define affordable, creditable coverage: The planning for the hub must include sorting through the key questions of what the benefit mix, cost, affordability and minimum coverages will be recognized in the Rhode Island statutory environment.
4. Location for Subsidies: The hub could provide a means of providing sliding-scale subsidies for residents whose incomes are too high to qualify for Medicaid coverage, but for whom some subsidy is needed to make health insurance affordable.

Although each of these goals is an important element of reform, in Rhode Island, our shorter-term objectives reflect our unique circumstances:

- Rhode Island’s individual (direct-pay) health insurance market is small. It includes 14,000 direct-pay lives, and just one carrier writes direct-pay coverage.
- State funds may be unavailable for subsidies for up to the next three years depending on the budget direction that is taken by the General Assembly.
- Medicaid expansion is unlikely at this time.

Given these circumstances, it is important to design a hub for Rhode Island that addresses our goals, that is operationally feasible given our small size, and that could ultimately support a subsidy structure but is not reliant on subsidies to be fiscally viable. Determining how best to achieve this will require consideration of either some or all of Rhode Island’s small group market – assuming that the individual market alone cannot provide sufficient scale for a hub. The small group market includes much larger number of insured lives (100,000), and three carriers write small-group coverage.

Key Issues to be Addressed by this Project

The project will evaluate and make recommendations regarding five key strategic issues:

1. Confirm the Goals: We listed three primary goals above: (1) to organize the Rhode Island market; (2) to support the transition to individual purchasing; and (3) to provide a location for subsidies. Are these goals appropriate? Are there others?
2. Business Model: What exactly do we mean by a hub, what should its primary functions be, and how should it work? Specifically, should we create an independent hub and supporting infrastructure? Alternatively, could we build on the Massachusetts Connector – creating a “Rhode Island page” on the Connector website? Are there opportunities for collaboration with other New England regulatory markets? How much can/should we rely on the existing infrastructure (local carriers, vendors) to limit the State’s investment?

3. Target Populations: Who will be eligible to purchase health insurance through the hub? Individuals only? Should it also include small employers – and if so, all small businesses or only those with less than a certain number of employees? Should employers be able to continue to purchase health insurance on behalf of employees – or is a mixed model (allowing employers to choose either defined benefit or defined contribution) feasible?
4. Mandates Needed: Is an individual mandate needed? An employer mandate? Are there lessons to be learned from Massachusetts on this issue?
5. How should the Hub interface with the existing health insurance market? Should it operate like Massachusetts – alongside other (direct to carrier, broker options) for obtaining coverage, or as the only channel for purchasing individual and/or small group coverage? How should it use and pay brokers? How should it interface with carriers?

In sum, the project will identify the key success factors for HealthHub RI – how much volume is required (at a minimum) and how will it be attained? How much will it cost to run? Will it be public or private?

Project Approach

We anticipate a seven-month project, running from September 2008 through March 2009, with most of the work completed by December 2008. It will include four major phases, as outlined below:

<p>Task 1: Background and Introduction</p>	<ul style="list-style-type: none"> • Synthesize existing Rhode Island specific assessments that have been done: merger study, reinsurance study, high risk pool assessment • Reconsider the problem statement and hub objectives – what problems are we trying to solve? What are prioritized list of objectives? • Assess MA model, other state exchanges/plans for exchanges • Conduct all-day kick-off meeting of stakeholder forum. Attendees will include key state officials, selected stakeholder-advisors and members of Small Business Advisory Council
<p>Task 2: Define the Options, Preliminary Recommendations</p>	<ul style="list-style-type: none"> • Conduct half-day focus group of “informed” small employers and brokers – understand problem priorities and develop ideas for addressing them, assess options • Conduct additional expert/stakeholder interviews to inform options • Develop options and preliminary recommendations to address each key issue
<p>Task 3: Refine Recommendations</p>	<ul style="list-style-type: none"> • Conduct full-day meeting of stakeholder forum to review/discuss options, assess preliminary recommendations • Conduct follow up research, analysis, expert interviews • Draft/present final report to stakeholder forum
<p>Task 4: Final Report and SCI Issue Brief</p>	<ul style="list-style-type: none"> • Final recommendations and report • SCI Issue Brief on issues that affect the transferability of an exchange concept other states. • Private and Public briefings by Health Insurance Commissioner to Administration Officials, plans, brokers, legislative advisory groups and small business coalitions.