



Basic Health Plan Offers a Chance to Provide Comprehensive Health Care Coverage for Low-Income Minnesotans

The number of uninsured in Minnesota has been on the rise over the last decade, with one out of 10 Minnesotans under age 65 now lacking health care coverage.¹ And there are many others who have inadequate insurance, often relying on catastrophic health insurance plans that come with high deductibles and offer little in the way of preventive care. The recent recession and the slow economic recovery have only added to the trouble – high levels of unemployment have caused many to lose access to affordable health care coverage through their work.

The federal Patient Protection and Affordable Care Act (ACA) of 2010 lays out a path for addressing those challenges by reforming the nation's health care system. Some elements of the ACA have already taken effect: children can no longer be denied coverage due to a preexisting condition, most young adults can stay on their parents' health insurance until the age of 26, insurance plans can no longer place lifetime dollar limits on health care coverage, and preventive services must be provided with no out-of-pocket costs. However, there are many other critical decisions Minnesota's policymakers need to make before the ACA is fully implemented in 2014.

One important decision is whether our state will continue to offer comprehensive and affordable coverage for working families. In 1992, Minnesota created MinnesotaCare as a way to provide working people access to health care coverage with reasonable premiums. Currently, more than 100,000 people are able to purchase affordable health insurance through MinnesotaCare each month, including pregnant women, children, parents and adults without children. The state negotiates with health plans to ensure comprehensive coverage options for these Minnesotans with affordable premiums and reduced cost-sharing. MinnesotaCare is funded by enrollee premiums, a state tax on health care providers and health plans, as well as some federal funding.

As of 2014, under the ACA, MinnesotaCare enrollees, along with other lower- to middle-income Minnesotans, will be eligible for federal tax credits to help them purchase private insurance through a health care exchange – an online marketplace where people can shop, compare and purchase health insurance. Unfortunately, many low-income working Minnesotans will be unlikely to afford the kind of comprehensive coverage they currently receive through MinnesotaCare, even with the help of federal tax credits.

The ACA offers Minnesota another way to continue offering working families comprehensive health care coverage similar to MinnesotaCare. States have the option of creating a Basic Health Plan, which would provide health care coverage for adults under the age of 65 with incomes that do not exceed 200 percent of the federal poverty level (\$30,260 for a couple), who are not eligible for Medicaid and do not have access to affordable and comprehensive employer-sponsored insurance. Minnesota policymakers should consider the option of implementing a Basic Health Plan in our state to ensure that low-income working Minnesotans can keep the affordable health coverage they need.

The Basics of a Basic Health Plan

A fundamental element of the ACA is the creation of health care exchanges. States can develop their own exchange or participate in a federal exchange. Most Minnesotans who do not have affordable and comprehensive coverage through their employer will be able to use the exchange to find coverage, with many people with incomes up to 400 percent of the federal poverty level (\$44,680 for a single person and \$92,200 for a family of four) also qualifying for tax credits and subsidies. The state may develop an alternative for low-income Minnesotans, called a Basic Health Plan, to offer more comprehensive and affordable coverage than is likely to be available through the exchange. There are two groups who would be eligible for coverage by a Basic Health Plan:

- Adults under age 65 with income between 138 percent and 200 percent of the federal poverty level who do not qualify for Medicaid (for example, a couple with an income between \$20,879 and \$30,260).
- Lawful immigrants below 200 percent of the federal poverty level, including those below 138 percent of the federal poverty level who are not eligible for Medicaid because of their immigration status.

If Minnesota creates a Basic Health Plan, eligible individuals would be required to participate and would not be able to purchase insurance through the exchange. The State of Minnesota would receive the federal funds for the premiums and cost-sharing subsidies that Basic Health Plan enrollees would otherwise have received in the exchange. Those federal dollars would be placed in a trust fund and used to benefit Basic Health Plan enrollees.

The ACA requires a state Basic Health Plan to meet certain requirements:

- The state must try to provide enrollees with a choice of plans within the Basic Health Plan.
- The state must use a competitive process to contract with one or more health plans.
- The Basic Health Plan must provide coverage that, at a minimum, meets a benchmark set of benefits. Minnesota has yet to determine the specific services that will be covered, but the ACA requires the benchmark plan to cover ten categories of services. Some of the required services include preventive care and chronic disease management, emergency services, hospitalizations, prescription drugs, mental health and substance abuse, and maternity and newborn care.
- Enrollees in the Basic Health Plan must not pay more in premiums or more in cost-sharing (such as co-payments and deductibles) than they would if they had purchased a plan through the exchange.
- At least 85 percent of the premiums paid by enrollees must go to cover health care costs; administrative overhead costs are limited to 15 percent.

A Basic Health Plan Offers Many Benefits for Working Minnesotans

A Basic Health Plan could have many advantages for working Minnesotans making their way up the income ladder. Low-income Minnesotans enrolled in Medicaid (known as Medical Assistance in our state) have very limited out-of-pocket costs for their health care. If these individuals must move directly from Medicaid into finding private health care insurance through the exchange, they are likely to face real, and at times insurmountable, obstacles. For example, it will be far more difficult for them to find plans with affordable premiums, deductibles and cost-sharing requirements. Currently, MinnesotaCare helps ease this transition for many people by offering health care coverage with reasonable out-of-pocket costs.

The Basic Health Plan option allows the state to establish a health care option similar to MinnesotaCare that would continue to provide comprehensive and affordable coverage for working individuals and families once the ACA is fully implemented in 2014. The following are some ways the Basic Health Plan could benefit working Minnesotans.

- **A Basic Health Plan would provide more affordable and comprehensive health coverage for Minnesotans than they could obtain in the exchange.** As it stands, there is no guarantee that coverage options in the exchange, even with tax credits and cost-sharing subsidies, will be as affordable or comprehensive as MinnesotaCare. This is of particular concern because the plans with the most affordable premiums in the exchange - what will be called “bronze” level plans - will most likely have high deductibles and copayments. A recent report found that, compared to participating in an exchange, implementing a Basic Health Plan in Minnesota could reduce average annual premium and out-of-pockets costs for an individual by \$1,600, or about \$135 a month.² That is a substantial savings for someone with earnings no more than 138 to 200 percent of the federal poverty level (\$1,285 to \$1,862 a month for an individual, or \$2,196 to \$3,182 for a family of three).
- **A Basic Health Plan could ease the transition for individuals moving between Medicaid and the private health care market on the exchange.** Studies show that continuity of coverage and care are linked to improvements in health indicators. Unfortunately, many low-income Minnesotans have incomes that frequently fluctuate around the eligibility cut-off for Medicaid. These people would experience disruptions in their care as they potentially switch plans and providers as they move between Medicaid and the exchange. A Basic Health Plan, if integrated with Medicaid, could allow a more seamless transition, helping low-income Minnesotans maintain insurance and relationships with their health care providers as they move up the income ladder and out of poverty.
- **The Basic Health Plan could help keep families in the same plan.** With the Basic Health Plan, there is also the potential to keep family members enrolled in the same health plan. If the state contracts for the same provider networks for the Basic Health Plan as it has contracted with for Medicaid, parents and children could visit the same clinics and doctors.
- **A Basic Health Plan would encourage more people to get health insurance by reducing the financial risk to individuals.** In the exchange, those who are eligible will receive premium tax credits based on anticipated annual income levels. These tax credits can be paid in advance to help cover the costs of monthly premiums. However, if an individual’s (or family’s) annual income ends up being lower or higher than anticipated when they file their taxes, they may get an additional credit, or end up owing the IRS. The latter scenario has the potential to deter some people from purchasing coverage through the exchange. Because the Basic Health Plan does not use tax credits, implementing a Basic Health Plan would also eliminate concerns about the negative implications this year-end reconciliation process could have on low-income Minnesotans, who commonly face unpredictable and volatile changes in their income levels and employment status.

Basic Health Plan Would Bring More Federal Dollars to Minnesota

Currently, MinnesotaCare is funded mostly by a state tax on health care providers and health plans. By establishing a Basic Health Plan, the federal government would pick up most of the cost for providing comprehensive and affordable coverage for this population. Under the Basic Health Plan,

Minnesota would get federal payments equal to 95 percent of what it would have spent on these individuals in the exchange for tax credits, as well as 95 or 100 percent of the subsidies for out-of-pocket costs that would otherwise have gone to the individual in the exchange. The subsidies in the exchange are based on private market insurance rates, so most studies have found that states should receive enough money from the federal government to fund the costs of a Basic Health Plan. According to a recent study commissioned by Minnesota's Health Insurance Exchange Advisory Task Force, our state may end up spending from \$100 to \$300 million less under a Basic Health Plan than we do today with MinnesotaCare.³

Potential Trade-Offs with a Basic Health Plan

Despite all the possible benefits, there are some factors for the state to consider when making its decision about establishing a Basic Health Plan.

- **Consumer choice.** It is true that if the state implements a Basic Health Plan, eligible Minnesotans would not be able to select from the full array of options available in the private market through the exchange. However, the Basic Health Plan will offer these Minnesotans more affordable and comprehensive coverage than they would have been able to access in the exchange. And although the Basic Health Care Plan choices may not be as diverse as in the exchange, the Basic Health Plan is likely to offer more than one plan. Currently, individuals enrolled in MinnesotaCare have little, if any, choice in their managed care plan. So a Basic Health Plan could actually improve options for this population while preserving affordability and sufficiency in coverage.
- **Provider reimbursement rates.** Reimbursement rates for health care providers in the Basic Health Plan are almost certain to be lower than through the private plans offered in the exchange. Some raise the concern that providers may choose not to accept clients enrolled in the Basic Health Plan, resulting in a more limited provider network. However, while providers may get lower rates than they would like from a Basic Health Plan, they will at least get payment for their services. Without a Basic Health Plan in place, many low-income Minnesotans may only be able to afford the private health care plans in the exchange that come with steep deductibles and large out-of-pocket costs. As a result, enrollees may find themselves unable to pay these high costs for their care, increasing the likelihood of higher uncompensated care rates for providers.
- **Viability of the exchange.** Creating a Basic Health Plan could mean a sizeable portion of the population would not participate in the exchange, potentially leaving a sicker population in the exchange and increasing the cost of insurance. A potential concern is that Minnesotans eligible for the Basic Health Plan are healthier on average (i.e. are lower risk), and removing them could increase costs for those remaining in the exchange and decrease the viability of the exchange. However, in Minnesota, the opposite might be true. Minnesota's Department of Human Services has found that Minnesota's Basic Health Plan population is sicker on average than the rest of the population. In other words, they are a high-risk population that will likely require more expensive care and services than others in the exchange. If this population remains in the exchange, plans might have to increase individual premiums and other health care costs to cover the higher costs of this population. Of course, the exchange will need a minimum number of people participating – healthy or not – in order for it to be viable. Initial estimates show that adding a Basic Health Plan in Minnesota would move approximately 100,000 people into public health insurance, still leaving approximately 400,000 individuals and small business employees in the exchange.⁴

- **Federal funding.** Federal funds flowing to the state for the Basic Health Plan will be tied to the cost of premiums and cost-sharing within the exchange. Most researchers have found that states implementing a Basic Health Plan would receive enough federal dollars to cover the costs associated with running a Basic Health Plan, minimizing the need for any substantial state investment in the program. However, nothing is entirely certain until researchers have a better sense of what the actual premium and cost-sharing subsidies in the exchange will be, which will translate into federal payments to the state. The state also needs to determine the benefit set, the level of provider reimbursement rates and the level of cost-sharing that Minnesota would require in the Basic Health Plan. In fiscal year 2010, Minnesota invested \$446 million in state funds for MinnesotaCare, or 67 percent of total funding. Federal dollars accounted for just 28 percent of MinnesotaCare funding. The Basic Health Plan would allow Minnesota to maximize federal funding while maintaining comprehensive and affordable options for low-income families after the exchange is implemented in 2014.
- **Moving the cliff.** As discussed above, creating a Basic Health Plan that is closely integrated with Medicaid could minimize the disruptions in care for Minnesotans with incomes fluctuating around 138 percent of the federal poverty level. However, some argue that a Basic Health Plan just delays the challenges of moving into the private market until an individual's or family's income reaches 200 percent of poverty. While this may be true, Minnesotans who move out of a Basic Health Plan as their income rises above 200 percent of poverty would experience a less drastic transition to the private market than those moving into the exchange from Medicaid, where there are very minimal out-of-pocket costs.

Minnesota Should Keep the Basic Health Plan on the Table

While there are still several unknowns about implementing a Basic Health Plan in Minnesota, there are many good reasons for policymakers to keep the option on the table as they consider setting up a state health insurance exchange. Since establishing MinnesotaCare in 1992, the state has continued to honor its commitment to ensuring equity in health care coverage by helping low-income working Minnesotans access affordable and comprehensive health care coverage. This investment has paid off, with Minnesota enjoying one of the lowest uninsurance rates in the country. The ACA presents a unique opportunity for Minnesota to not only continue to offer affordable coverage for working families, but also to generate new federal resources to fund most, if not all, of the costs of maintaining this commitment.

¹ U.S Census Bureau, 2010 Current Population Survey.

² The Urban Institute, *Using the Basic Health Program to Make Coverage More Affordable to Low-Income Households: A Promising Approach for Many States*, September 2011.

³ Information from Minnesota's Health Insurance Exchange Advisory Task Force.

⁴ Jonathan Gruber and Bela Gorman, *Coverage and Financial Impacts of Market Reforms and a Basic Health Plan (BHP) in Minnesota*, November 2011.