States Move To Create Health Reform's Lesser-Known Basic Health Plans

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Several states -- including California and Connecticut -- are considering how to move forward with the reform law's "Basic Health Plan," a state-sponsored plan that piggybacks on Medicaid by providing coverage to people earning from 133 percent to 200 percent of the poverty level using 95 percent of the federal funds that would otherwise be used to purchase private coverage on the exchange. Supporters of the concept suggest that the option would cost less, offer better pay to providers and could mitigate the "churn" between Medicaid and private insurers, but others worry that a state-sponsored plan would pull younger, healthier people from the exchange thus threatening its viability. and states are waiting on more guidance from HHS on a number of issues.

California and Connecticut both introduced bills in their state legislatures to establish a basic health plan in their states, and a health policy source told Inside Health Policy that Rhode Island and Illinois have called for an analysis of option in their state exchange planning grant RFPs.

Rosemarie Day, president of Day Health Strategies, said there's an assumption that Medicaid managed care organizations would be used in basic health plans to lower costs. If states can manage the basic health plan at a lower cost then they can use excess money to expand benefits or make beneficiaries' cost-sharing less, she said.

Individuals with incomes between 133 percent and 200 percent of the federal poverty level would qualify for coverage under the plan starting in 2014, and if a state establishes a plan that population would not purchase insurance out of the reform law's exchanges. Basic health plans must have a medical loss ratio (MLR) of 85 percent in the individual and small group market, higher than what is required in the exchanges.

Legal immigrants who are not eligible for Medicaid could also qualify.

"Large numbers of people could be eligible for this alternative plan," the McKinsey Center for U.S. Health System Reform wrote in a recent policy brief. "Tabulations by the McKinsey Center for U.S. Health System Reform from the most recent Current Population Survey suggest that 19% of the non-elderly uninsured have incomes that would qualify. This translates to 8 million people who may otherwise enroll through health insurance Exchanges."

Roughly 900,000 people would be eligible for the basic health plan in California, according to sources familiar with that state's bill. The bill, scheduled for a hearing of the state's Senate Appropriations Committee on May 23, also requires the plan to be funded through federal funds, private donations, premiums by beneficiaries and other non-general fund monies.

The sources said they also think the savings accrued from the basic health plan would allow the state to pay providers at a better rate than they get under Medi-cal, California's Medicaid program.

Many in the state, though, are concerned about risk pool issues -- namely that basic health plan beneficiaries might be healthier or sicker than the exchange population. Former California Health and Human Services Agency Secretary and Health Benefit Exchange board member Kim Belshe said earlier this week that the basic health plan is on the agenda of the next exchange board meeting on May 11.

“Everybody's kind of guessing right now,” Day, who also does work with the McKinsey center, said of the risk pool within basic health plans.

The sources familiar with the California bill say they have some data indicating that people who are in worse health are the lower-income residents below 200 percent of poverty, which encompasses the residents who would be in the basic health plan instead of an exchange. If that were the case, the basic health plan could have higher costs. More analysis is being done on the issue.

The basic health plan provision under the health reform law was modeled after the program that already exists in Washington, which Sen. Maria Cantwell (D-WA) has long supported. The health reform law also provided a much-needed boost of federal funding for Washington's basic health plan, which had been on the chopping block as Washington lawmakers were dealing with a $2.7 billion budget shortfall. According to McKinsey, Massachusetts also implemented a version of the basic health plan through its Commonwealth Care program.

In Connecticut, Betsy Ritter, House chair of the state legislature's public health committee, says a basic health plan provision was contemplated in a number of different bills -- two that dealt with the creation of health insurance exchanges and one that implements SustiNet, a health insurance program that originally contained a public insurance option. But the state's efforts to create a plan might be stymied for now. Ritter told Inside Health Policy the basic health plan carries a high price tag and that lawmakers are in need of more information, such as what will be contained in the “essential benefits” package that federal agencies are still developing.

The SustiNet bill estimates that Connecticut's basic health plan would result in a net additional annual state cost of between $222.8 million and $478.6 million, and would cover an estimated 85,250 new people. The exchange bills also envision a basic health plan, Ritter said, but the basic health plan in those bills would still carry the same fiscal impact.

“In terms of this bill, I don't see that we could be successful in a hard commitment to get there,” Ritter said, adding that it is unclear how much progress will be made on the plan this year. “But one of the obstacles was a lack of information.”

The SustiNet bill that establishes a basic health plan provides that if federal funds for the plan exceed its costs, the excess must be used to increase reimbursement rates for providers serving Medicaid and basic health plan beneficiaries.

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