

Financial Impact of Arkansas' Private Option Plan for Insurance Premium Assistance

Working with legal consultants from Manatt, Phelps and Phillips, LLP, actuarial consultants from Optumas, and the Arkansas Insurance Department, the Department of Human Services (DHS) has developed updated estimates in light of the recently proposed option for covering low-income adults through private health plans in the state insurance exchange. These estimates find that the private option can be fully funded with existing resources at the state level and would add less than 15% to federal health-care costs in Arkansas. In some realistic scenarios, there could be no additional federal costs at all.

These Arkansas estimates are less than one-third of the Congressional Budget Office (CBO) cost estimate widely cited in press accounts. There are many reasons behind this difference:

- The CBO estimate addressed a much more limited – and optional – substitution of private coverage for Medicaid, e.g., self-identifying adults 100-138% of the poverty level only.
- CBO didn't estimate a market transformation like Arkansas is considering with the private option. Arkansas' emerging plan would double the size of the state exchange and significantly shrink the market share of Medicaid compared to the private insurance market.
- CBO estimated a national average for Medicaid costs and a national average rate differential between Medicaid and private carriers. In both cases, that estimated differential is significantly larger than the actual differential in Arkansas.
- DHS does not challenge CBO's July 2012 estimate of the overall federal impact of the optional Medicaid expansion, only the applicability of that analysis to Arkansas' new policy option.

Factors in Cost Estimate Calculations

- An actuarial review reveals that the existing provider rate differential between Arkansas' private market and its Medicaid program is less than 25%.
- It is likely that introducing 250,000 low-income adults into the private market through the insurance exchange will increase competition among carriers and generate some price pressure on providers, since they would then be compensated at competitive rates for all clients. This price pressure is estimated to result in a 5% reduction in private reimbursement rates in the exchange.
- The competitive nature of health-plan management within the exchange, the allowable cost sharing and sharper consumer health-care decision making will reduce that differential by an additional 5% or more.
- Because some small populations will not be subject to the private health-plan cost differential (e.g. medically frail patients who will remain on Medicaid), the net increase in Medicaid costs for the federal government is expected to be approximately 13-14%, not including the additional offsets discussed below.

Federal Cost Increases Could Still Occur Under a Traditional Medicaid Expansion

- DHS' 2012 Medicaid expansion estimates did not take into account the potential need to increase reimbursement rates in order to serve the new population, largely because extremely high federal match rates mean that inflationary costs have little impact on net costs to the state. That net cost was the focus of those estimates. Now, however, the question has been raised about the costs to the Federal government of premium assistance through the private option.
- Arkansas' existing Medicaid program appears to provide sufficient access, but adding 250,000 participants would require significant new commitments by providers to meet the increased demand for medical services.
- How much might the Federal government need to pay providers to secure access for this new population? The best comparison point might be the rates that would be paid in a competitive market for services to a low-income population, and this is exactly what those providers would get paid under Arkansas' emerging plan.
- DHS' estimates of the federal impact of Arkansas' emerging low-income premium assistance option do not yet take into account the likely increase in traditional federal Medicaid provider reimbursement rates that would be required to secure access for a Medicaid expansion population. Incorporating that likely rate inflation will further reduce any net impact of the private option on federal spending.

Impact of the Private Option Population on the Exchange Will Further Reduce Federal Costs

The competitive pressure on reimbursement rates introduced by the private option is expected to apply to all participants in the exchange, including the more than 200,000 Arkansans expected to receive federal tax subsidies for their premiums.

- As a result of the inclusion of Medicaid-funded adults into the exchange, the federal treasury is expected to spend approximately \$700 million less on tax subsidies in Arkansas, which serves as an additional offset to the incremental costs in Medicaid.
- The state-and-federal taxpayer impact may drive the incremental costs of the private option to zero, or could even produce long-term savings, depending on the size of the impact created by competition and health-plan management.