ALASKA STATE HOSPITAL & NURSING HOME ASSOCIATION

House Republican Leadership Repeal and Replace Legislation: American Health Care Act March 13, 2016

Background: The following is an ASHNHA analysis[1] on the impact of the March 6 version of the American Health Care Act on hospitals in Alaska. The Congressional Budget Office only recently scored the bill, releasing estimates detailing the costs of the plan and the impact on the number of insured people. State-specific data has not yet been reported. We believe the estimates for Alaska, when released, will show significant reductions in the coverage expansions gained through the Affordable Care Act.

INSURANCE AND THE INDIVIDUAL MARKET

Purchasing Insurance

***Alaska*:** About 19,150 Alaskans have purchased health care insurance through the federal health insurance exchange. Current subsidies are based on income. Nearly 90% of people received tax credits in 2016. Alaska will suffer the biggest cuts to tax credits of any state under the plan being considered. Alaska has the highest health insurance costs in the nation and the proposed changes could put the entire individual market for insurance at risk.

Tax credits would fall by an average of $1,700 or 36% for marketplace consumers across all states**. In Alaska tax credits would fall by an average of $10,243 or 78%**.[2] This is because unlike the ACA's tax credits, the House plan's tax credits would not adjust for geographic variation in insurance premiums. They would be the same for a 45-year-old consumer in Alaska, where benchmark health insurance coverage costs $12,600 this year on average, as in New Hampshire, where it costs $3,600. The overall result would be wide gaps in affordability across the country.

The reduction in tax credits would be even more severe for lower-income or older consumers. Older people would also be impacted by a provision in the House bill that would let them be charged higher premiums, and lower-income people would lose help with deductibles, copays, and coinsurance.

The ACA premium tax credits have made health insurance affordable to thousands of Alaskans. Because premiums in Alaska are high, consumers receive the highest per person premium tax credits in the country, averaging **$11,595 per marketplace consumer on an annualized basis for 2017.**

***American Health Care Act*:** The bill repeals the federal subsidies and replaces them with refundable tax credits for individuals without another source of coverage. For an interim period, the bill increases the tax credits for low income persons. Beginning in 2020, however, the tax credits are based only on age. The value of the tax credit starts at $2,000 annually for individuals under age 30 and increases to $4,000 annually for individuals under age 65. The credit phases out for high income individuals. The tax credits will not take into account the actual cost of premiums; the credits are one-size-fits-all across the country.

Based on current subsidies, the bill makes it less affordable for low-income people to purchase insurance. Individuals would have more incentive to purchase less generous coverage. While the amount of credit varies by age, it appears the credit amount for older Americans will not provide sufficient funds to purchase

coverage.

The bill eliminates the benefit tier requirements (bronze, silver, gold) for products sold in the individual market and on the exchange. We expect this would allow insurers to offer more products, including those with larger deductibles and out of pocket maximums (catastrophic coverage.) The bill, however, does not include cost-sharing reductions available to many current exchange enrollees. The lack of these subsidies combined with continued high cost-sharing plans will likely result in more consumers struggling to finance deductibles, co-pays and coinsurance obligations.

Individual Mandate

Alaska: Alaska has a small insurance market. In 2016, there were approximately 24,064 Alaskans with individual health insurance coverage and 17,746 Alaskans with small employer health insurance coverage.[3] This includes those purchasing through the health insurance exchange and the non-exchange individual insurance market. Alaska has an extremely fragile healthcare market with only one insurer in the individual market in 2017. Insurers are counting on the individual mandate to encourage enough younger and healthier consumers to enroll and create a stable, more affordable risk pool.

American Health Care Act: The bill eliminates individual and employer mandate penalties in 2016. Beginning in 2019, it provides incentives to purchase coverage as a way to keep healthy persons buying insurance. It does so by making insurance more expensive for those without continuous insurance coverage. The bill attempts to promote stability by loosening requirements on age ratings for insurance. In addition, the bill would make innovation waiver funds available to states to help stabilize the market through high risk pools, payments to providers, assistance with premiums and cost sharing, and other programs. These provisions are inadequate to stabilize the Alaska market.

MEDICAID EXPANSION & ELIGIBILITY

Alaska: Under the Affordable Care Act, Alaska covered more than 30,000 newly eligible adults with incomes below 138 percent of the poverty level. The state is receiving generous federal match funds (100% through CY16 transitioning to 90% in 2020). This contrasts with the usual Medicaid match rate of 50%. A total of $383 million has been paid in Medicaid expansion claims since Sept 1, 2015.[4] This reimbursement has helped to stabilize rural health facilities.

American Health Care Act: Alaska can continue its coverage for the newly eligible Medicaid adults, but with significant changes in funding. Newly eligible adults enrolled before January 1, 2020 will continue to be covered with 90% match into the future. Beginning in 2020, the federal dollars that support newly eligible adults will drop dramatically. Alaska will have to bear the additional cost or shrink the number of people covered by Medicaid.

The care for new adults enrolled in this category and the care for any adults new with a lapse in enrollment will get federal payments using the traditional 50% match rate. This means that over time, as new persons join the program and current enrollees leave, the state will need to pay half the cost of these enrollees. Based on historical data, CBO projects that fewer than one-third of those enrolled as of December 31, 2019, would have maintained continuous eligibility two years later and by 2024 fewer than 5 percent of expansion enrollees would be eligible for the higher federal matching rate. So for all practical purposes the legislation ends Medicaid expansion.

MEDICAID FUNDING

Alaska: Currently Alaska and other states decide Medicaid payment policies and make choices on Medicaid benefit packages. This, plus the underlying health care cost structure in the area, determine the state's per

capita cost for Medicaid. These choices also impact the Medicaid yearly increases in cost per capita. The restructuring of Medicaid's federal financing could lead to significant cuts in Medicaid funding in Alaska over time. This would put increased pressure on the State budget and lead to cuts in Medicaid coverage and services for seniors, people with disabilities and families with children.

Alaska has the second largest growing low-income elderly population in the country. Spending for the older population is less likely than others to track the medical consumer price index, because much of the money tends to go to nursing home care, not traditional medical services.[5]

***American Health Care Act*:** In the future, the federal government would contribute only a set amount per capita by type of enrollee (aged, blind and disabled, child, adult and other). Federal payment growth is limited to the medical consumer price index. If Alaska's cost trend exceeds the allowed growth, the state must pay the difference or make other changes. This would mean cuts to enrollment, benefits, or more cuts to provider reimbursement in Alaska. This puts enormous pressure on the state to keep the cost of care and growth rate low. The bill sets the per capita amounts based on 2016 federal spending. The cap would be reduced by federal spending for safety net assessment and other special programs. Indian Health Service populations would be excluded from the payment cap.

HOSPITAL CUTS CONTAINED IN THE AFFORDABLE CARE ACT

***Alaska*:** Hospitals are incurring cuts in Medicare and Medicaid payments to pay for the coverage expansion in the Affordable Care Act. These cuts were calibrated based on the expanded coverage the Act provided. For Alaska hospitals, over the next 10 years, the Act imposes cuts of about $80 million in Medicaid Disproportionate Share Hospital payments, *and* $695 million in Medicare payments.

American Health Care Act: For expansion states, the bill repeals the Medicaid Disproportionate Share Hospital cuts beginning in FY 2020. Repeal of these cuts is permanent. ***The bill, however, does not restore the Medicare cuts – leaving Alaska hospitals to continue to absorb the $695 million in cuts.*** ASHNHA is very concerned about these cuts, especially since the coverage numbers associated with this bill will likely be inadequate.

IMPACT ON THE UNINSURED:

Alaska has historically had a high rate of uninsured, but passage of the Affordable Care Act dramatically reduced the number of uninsured Alaskans. According to Gallup[6], Alaska ranks as one of the ten states with the largest reductions in the rate of uninsured. In 2013, 18.9% of Alaskans did not have health insurance. By 2015, that rate had dropped to 10.3%, a reduction of 8.6 percentage points. Medicaid expansion alone has provided health insurance to more than 30,000 Alaskans, representing 17% of the total population covered by Medicaid. [7] Changes in Medicaid eligibility and insurance subsidies will increase the number of uninsured Alaskans.

AFFORDABILITY

Alaska: Alaska has just begun significant efforts to reform the Medicaid program and develop innovative payment mechanisms to bend the cost curve and promote value-based payment incentives. Dramatic changes in the Medicaid program could hamper efforts to reform the program, adding a significant level of uncertainty.

American Health Care Act: The bill promotes health savings accounts by increasing the maximum amount of contributions. It also allows less comprehensive insurance coverage. The bill also allows insurers to increase premiums to older Americans by 5 to 1, instead of the 3 to 1 standard. This could result in older people being less able to afford coverage and insurance coverage that will not pay for necessary care.

OTHER TAXES AND FUNDING

American Health Care Act: As mentioned above, the bill does not repeal the hospital Medicare cuts. It does

repeal essentially all the other new taxes authorized by the Affordable Care Act, including the increase in the Medicare payroll tax for high earners, as well as fees on insurers, prescription drugs and medical device manufacturers, among others. The date of repeal varies by tax. This means that any future increase in coverage at the federal level needs a new funding source.

The bill delays the "Cadillac" tax, the excise tax on high value plans (nearly all Alaska group plans fall into this category) until 2025. This tax will further destabilize the Alaska insurance market.

OTHER CONDITIONS ON ELIGIBILITY FOR MEDICAID COVERAGE

- **Hospital Presumptive Eligibility:** The bill repeals the requirement that states must allow hospitals to make presumptive eligibility determinations for Medicaid. Alaska hospitals currently use this process.
- **Retroactive Eligibility:** Beginning October 1, 2017, the bill limits retroactive coverage of Medicaid benefits to only one month, rather than the current three-month period.
- **Citizenship or Legal Resident Documentation:** Beginning October 1, 2017, individuals applying for Medicaid are required to present documentation of citizenship or legal status before coverage can begin.
- **Redeterminations for Medicaid Expansion Populations:** Beginning October 1, 2017, the bill requires Medicaid expansion states to re-determine Medicaid eligibility for expansion adults every six months. For about two years, the bill gives states some increased funds to help defray the additional administrative costs. Alaska currently determines eligibility annually for enrollees.

---

[1] Thanks to Washington State Hospital Association and Chelene Whiteaker for the analysis template.
[2] Center on Budget and Policy Priorities http://www.cbpp.org/sites/default/files/atoms/files/3-9-17health.pdf
[3] Alaska 1332 Waiver application, Alaska Department of Commerce, Community, & Economic Development, 2017
[4] Medicaid in Alaska Dashboard, http://dhss.alaska.gov/HealthyAlaska/Pages/dashboard.aspx, updated 3/3/17
[5] New York Times, March 7, 2017 analysis.
[6] http://www.gallup.com/poll/189023/arkansas-kentucky-set-pace-reducing-uninsured-rate.aspx
[7] http://dhss.alaska.gov/healthyalaska/pages/dashboard.aspx