Michigan Department of Community Health
Senate Bill 1359: Health Insurance Claims Assessment
Senate Appropriations Testimony
November 29, 2012

The health insurance claims assessment (HICA) was established in PA 142 of 2011 to replace the prior 6.0% use tax deemed at risk with Federal Government. The intent of HICA was to generate $400M in revenue matched with federal funds at the Federal Medical Assistance Percentage (FMAP). Michigan's FMAP for 2012 – 2014 has fluctuated between 66.14% and 66.32% generating two federal dollars of revenue for every claims assessment dollar generated in Michigan. $400M in claims assessments would generate $1.2B for our Medicaid program.

Michigan Department of Community Health's (DCH) medical services are appropriated at $10.5B for FY 2013 with another $2.2B in Medicaid appropriated for behavioral health services. The $10.5B in medical services is supported by only $1.3B in GF (12% of the program). If HICA sunsets, we'll lose 31% of our GF support in medical services

Federal statutes limit our discretion in managing Medicaid expenditures through eligibility criteria leaving provider rates as our only viable option to manage costs. The current shortfall in HICA will require significant cuts to provider rates. Complete elimination of HICA would decimate provider rates on a scale that would not only deter providers from accepting Medicaid patients but likely would not even be acceptable to the Federal Government Centers for Medicare and Medicaid Services (CMS).

The HICA rate was set at 1.0% based on expected claims of $40.0B to generate $400M in claims assessment revenue. However, actual collections are coming in far short of original estimates. The first three quarters of HICA revenue have generated only $176M ($47.5M, $59.6M, $68.9M) due primarily to the following:

1) Claims are paid where policy is issued, not where claims are paid or services rendered
    a. $5.5B in out of state insurance business not taxed ($55M HICA shortfall)
2) Claims related to self-funded market off from original expectations
    a. $5.2B should not be counted toward base ($52M HICA shortfall)
3) High deductible plans have tripled from 2006 to 2012
    a. Out of pocket payments reduce the amount of claims paid and HICA revenue

HICA revenue shortfalls result in an ongoing structural deficit problem for DCH's budget:

<u>FY 2012</u>
Amount Authorized = $297.6M
Actual Revenue = $176.0M
Revenue Shortfall = $121.6M

<u>FY 2013</u>
Amount Appropriated = $400.0M
Estimated Revenue = $256.0M
Estimated Shortfall = $144.0M

<u>FY 2014</u>
Estimated Appropriation = $400.0M
Estimated Revenue = $285.0M
Estimated Shortfall = $115.0M

The FY 2012 shortfall will be covered through a legislative transfers and GF lapses in Medicaid. The FY 2012 lapses became available when budgeted caseload increase of 2.9% turned into an actual caseload decrease of 1.2% for a 4.1% swing in caseload. Each 1% of caseload equates to approximately $30M GF. This was the first caseload decrease since 1999. The FY 2013 budget is predicated on an assumed flat caseload. Therefore, the GF lapses experienced in 2012 should not be expected again in 2013. DCH meets with the legislative fiscal agencies and State Budget Office in May for an annual Medicaid consensus conference. The budget is amended through legislative action when the consensus deems a significant fluctuation from original appropriations.

The HICA shortfall is a significant hole in the DCH budget and we appreciate your support in finding a stable funding source that will enable Michigan's providers to be paid at a rate that allows for good medical care for our Medicaid population.