



# Michigan Association of Health Plans

Testimony before House Appropriations Committee  
May 14, 2014

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Richard B. Murdock  
*Michigan Association of  
Health Plans*

Good morning. My name is Rick Murdock, Executive Director of the Michigan Association of Health Plans and I am here to comment on SB 893 and 913—legislation that would restore the State's use tax requirements on Medicaid Health Plans and reduce the effective rate charged to payers under HICA. Let me indicate from the outset that MAHP supports both SB 893 and SB 913 as passed by the Senate.

### Review of Tax Support for Medicaid Managed Care

The issue of targeting restricted fund sources to support Medicaid generally and managed care specially is neither a new concept nor one that our industry has not previously supported. Beginning in 2002 and continuing thru today a significant source of revenue for the health plan line has been based on taxes/assessments imposed on our industry. This began with the HMO Quality Assurance Assessment Program, QAAP in 2002—similar to that now used by the hospital and nursing home industry—amended in 2006 to include the State's Medicaid mental health program provided through Prepaid Inpatient Health Plans, PIHPs, and shifting to the state's use tax in legislation passed in 2008. As many know, this approach was replaced by HICA in 2011. The anticipated revenue—and its shortfall appears in the health plan line item so we have a very keen interest in this issue and are committed to work toward resolution of shortfalls and establishing a more secure base of revenue.

### Current Budget Issues in Medicaid Managed Care.

Medicaid managed care has been a tool used by the State for decades and mandatory enrollment since 1997. Budget savings of hundreds of millions of dollars have been the result each year—compared to running the program in fee for service, improved access to care and high performance as indicated by Michigan having 10 of the top 50 Medicaid Plans nationally. To continue to support managed care requires an adequate rate structure.

As many know, MAHP has identified major concerns with the proposed budget for FY 15 that are exacerbated by the revenue shortfall of HICA, additional costs that are not yet addressed by the budget, and our need to secure "actuarial soundness" for rates as required by state and federal rules. We have provided details on

these issues in the subcommittee hearings and in meetings with members, fiscal agencies and staff.

The basis for our support of SB 893 and SB 913 is that this legislation provides the vehicle to address the HICA shortfall, resources to address actuarial soundness requirements and with other administrative decisions, resolve our concerns regarding the FY 15 budget. For these reasons, our members are willing to accept returning to the use tax method that would impose a tax solely on our members and PIHPs which is the thrust of SB 893.

### **Reducing HICA**

It is clear that while well intended, HICA has not produced the revenue previously provided via the use tax and has created a burden on all payers rather than those who may benefit directly by the revenue. With the restoration of the use tax on Medicaid health plans, the ability to reduce and ultimately eliminate HICA becomes possible. SB 913 begins significant relief in yet this fiscal year. Because there will be additional Medicaid revenue due to required shift of additional programs from fee for service into managed care at the end of FY 15 and start of FY 16 further opportunity for additional rate relief is likely to occur. The insertion of a "trigger" mechanism was added in SB 913 for that reason.

### **MAHP Recommendation**

While there are differing reasons why groups will be supporting, our support is based on the following:

1. Resolves many of the HICA issues that have troubled the budget over the past several years, including shortfalls that have had to be "fixed" each year.
2. Offers means to provide a tax-cut in HICA—starting with 25% and a mechanism (trigger) for further reductions as additional revenue is generated by the use tax—as a note, under the Healthy Michigan Program, additional Medicaid fee for service beneficiaries are intended to be enrolled in managed care at the end of next fiscal year and into FY 16 which should increase use tax revenue.
3. Restores a more stable and predictable revenue source—unlike HICA and its underlying base that was unknown—the base for the use tax is directly related to the annual appropriations for Medicaid Health Plans and Prepaid Inpatient Health Plans, PIHPs and can be more accurately included in the annual appropriations process.
4. Provides protection of the cost of the tax burden on our industry and creates opportunity to continue to provide meaningful actuarial soundness into the future.

Again, MAHP strongly support this legislation before you and encourages your vote of support. Thank you.