DirigoWatch

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Buyer Beware! Considerations for Small Businesses Examining Governor Baldacci's DirigoChoice Health Plan

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On January 3, 2005 Governor John Baldacci announced disappointing results for the first three months of DirigoChoice sales (see Chart 1 on this page). Enrollments are far below original projections, and employer contributions are critical to Dirigo's shaky financial underpinning. Although the Governor and Dirigo Health will begin another marketing campaign in hopes of convincing others to sign up, the projections of 31,000 people enrolled in the program by December 31, 2005 seem highly unlikely. Maybe employers are not signing up because they understand the following five disappointing facts about DirigoChoice:

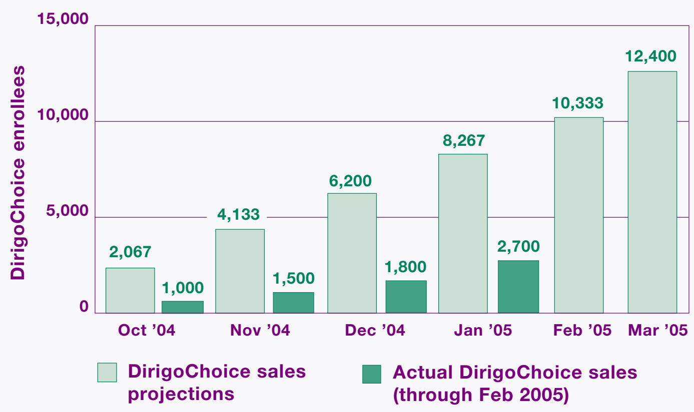
1. The cost of offering DirigoChoice to your employees is significant.

Small employers are required to pay a minimum of 60% of the employee-only premium for the employer (about $2,231 annually for each employee), regardless of what level of health coverage employees chose for themselves and their families (employee-only, employee and spouse, employee and children or family coverage).

2. The complexity of DirigoChoice is six times that of traditional employer-provided health benefits.

Rather than small employers having to just understand and consider the four different levels of coverage, the DirigoChoice benefit plan has various deductibles and employee net costs based on an employee's household income. However, employers will not know an employee's household income. They only know the wage and salary information of their own employees. Employees interested in receiving DirigoChoice will have to provide household financial information to the State. Based on this information, they will be placed in one of the twenty-four different DirigoChoice plans. Each plan has a different deductible and a different net employee premium (please see Chart 2: Dirigo Choice Simplification? on page 2). Employers will not know what plan any given employee is in, as knowing such would reveal confidential information about that employee's household.

Chart 1: DirigoChoice Sales Have Been Slow and 67% Below Projections



DirigoWatch™ *is a quarterly publication of the Maine Heritage Policy Center (MHPC) providing research, updates and commentary on Maine Governor John Baldacci's Dirigo Health initiative.*

Chart 2: DirigoChoice Simplification? Navigating the 24 Different Employee Plans

2004 Family Income Eligibility

<table>
<tr><th></th><th colspan="6">Annual household income can be NO more than</th><th>Income OVER</th></tr>
<tr><td>1 person family</td><td>$9,310</td><td>$11,638</td><td>$13,965</td><td>$18,620</td><td>$23,275</td><td>$27,930</td><td>$27,930+</td></tr>
<tr><td>2 person family</td><td>$12,490</td><td>$15,613</td><td>$18,735</td><td>$24,980</td><td>$31,225</td><td>$37,470</td><td>$37,470+</td></tr>
<tr><td>3 person family</td><td>$15,670</td><td>$19,588</td><td>$23,505</td><td>$31,340</td><td>$39,175</td><td>$47,010</td><td>$66,090+</td></tr>
<tr><td>4 person family</td><td>$18,850</td><td>$23,563</td><td>$28,275</td><td>$37,700</td><td>$47,125</td><td>$56,550</td><td>$56,550+</td></tr>
<tr><td>5 person family</td><td>$22,030</td><td>$27,538</td><td>$33,045</td><td>$44,060</td><td>$55,075</td><td>$66,090</td><td>$66,090+</td></tr>
<tr><td>6 person family</td><td>$25,210</td><td>$31,513</td><td>$37,815</td><td>$50,420</td><td>$63,025</td><td>$75,630</td><td>$75,630+</td></tr>
<tr><td>% of FPL</td><td>0-100%</td><td>100-125%</td><td>125-150%</td><td>150-200%</td><td>200-250%</td><td>250-300%</td><td>300+%</td></tr>
<tr><td>Children</td><td rowspan="3">Category A $0/$0 deductible
Currently Medicaid eligible</td><td>Category A - April 2005 Medicaid eligible OR Category B $250/$500 deductible</td><td>Category B $250/$500 deductible</td><td>Category C $500/$1,000 deductible</td><td rowspan="3">Category D $750 individual $1,500 family deductible</td><td rowspan="3">Category E $1,000 individual $2,000 family deductible</td><td rowspan="3">Category F $1,250 individual $2,500 family deductible</td></tr>
<tr><td>Parents</td><td colspan="2" rowspan="2">Category A - $0/$0 deductible currently Medicaid Eligible OR Category B $250/$500</td><td>Category A - $0/$0 deductible April 2005 Medicaid eligible OR Category C $500/$1,000 deductible</td></tr>
<tr><td>Adults without minor children</td><td>Category A - $0/$0 deductible currently Medicaid Eligible OR Category C $500/$1,000 deductible</td></tr>
</table>

3. Employees will have to provide substantial, confidential information to the State in order to apply for a discounted DirigoChoice plan.

An employee's portion of the premium will be a sliding scale based on that employee's household income. Employees would have three options:

- **Apply to verify eligibility for Medicaid or a premium subsidy**
- **Apply to verify eligibility for Medicaid for only a premium subsidy**
- **Not apply for Medicaid or a premium subsidy and pay the same share of the premium as those at the highest end of the income scale (those earning more than 300% the federal poverty limit)**

If an employee wants to apply for Medicaid or a premium subsidy, the employee must provide the following information to the state Dirigo Health Agency for every member of that employee's household:

- **Pregnancy status**
- **Income, employers and earnings (including self-employment, disability and unemployment income)**
- **Child care providers and expenses; child support obligations**
- **Current health insurance**
- **Disability or HIV status**
- **All cashable assets - including names on account, financial institution, account numbers and value**
- **All real estate assets**

Such information must be handled carefully—this information is confidential; often for an employer to disclose or know this information is a violation of a federal and state labor and confidentiality laws.

4. What employees pay will vary dramatically based on their household incomes.

Below are Charts 3 and 4 showing the employer portion, net employee's portion and taxpayer subsidy for employee-only and family DirigoChoice coverage for various income levels. As you can see, the employee's net premium (light green) varies dramatically. The cliff between categories is as abrupt as it seems. **An employee with just 5 more dollars in annual household income could pay thousands of dollars more for a reduced health benefit.** Given the variations in plans, employees will face up to twenty four different cliffs, depending on their household income, number of household members, and number of minor children, among other considerations.

For example, the following situations could occur in the workplace:

DirigoChoice's Marriage Penalty:

◆ Mary is married with no children with a household income of $24,000, with both her and her husband working full time. She would pay a net cost of $1,188 per year for employee-only coverage with a $1,000 deductible. Her coworker Jane lives with her boyfriend, together they also earn $24,000 per year and have no children. Because the State does not recognize or count the income from Jane's boyfriend, her "DirigoChoice" household income is only $12,000. Jane, with the same job, same salary and same perceived household income as Mary, will only pay $300 per year for her employee-only coverage with a $250 deductible. **Because she is married, Mary will pay $888 more per year and have a $750 higher deductible giving her a $1,638 DirigoChoice marriage penalty.**

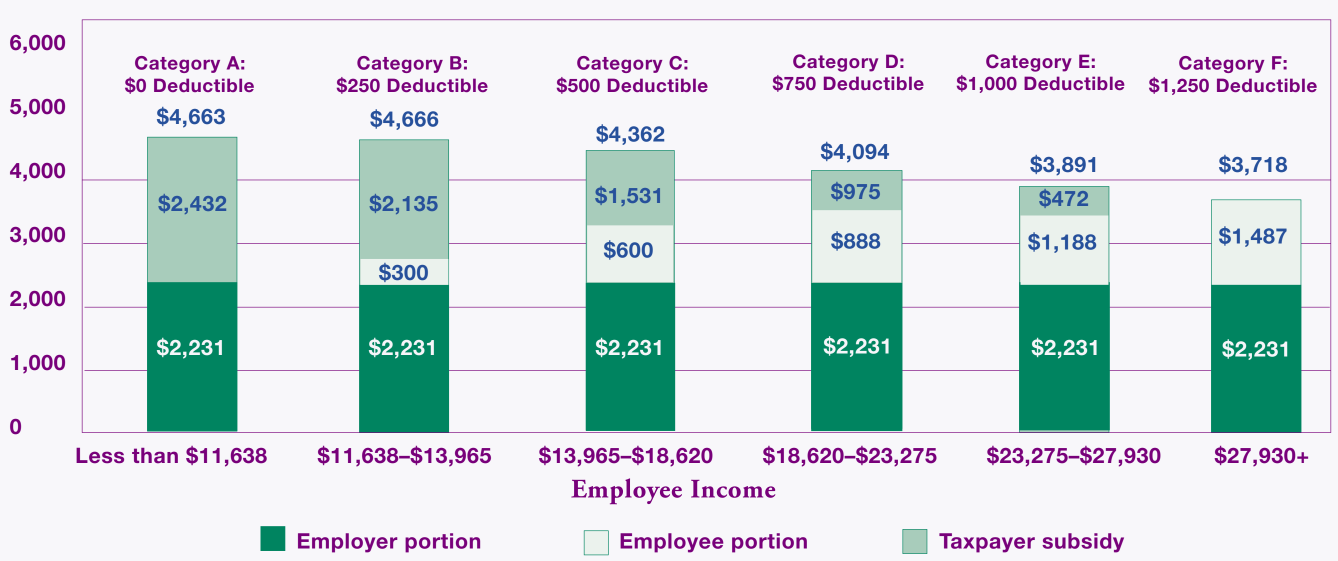
DirigoChoice's COLA Crisis:

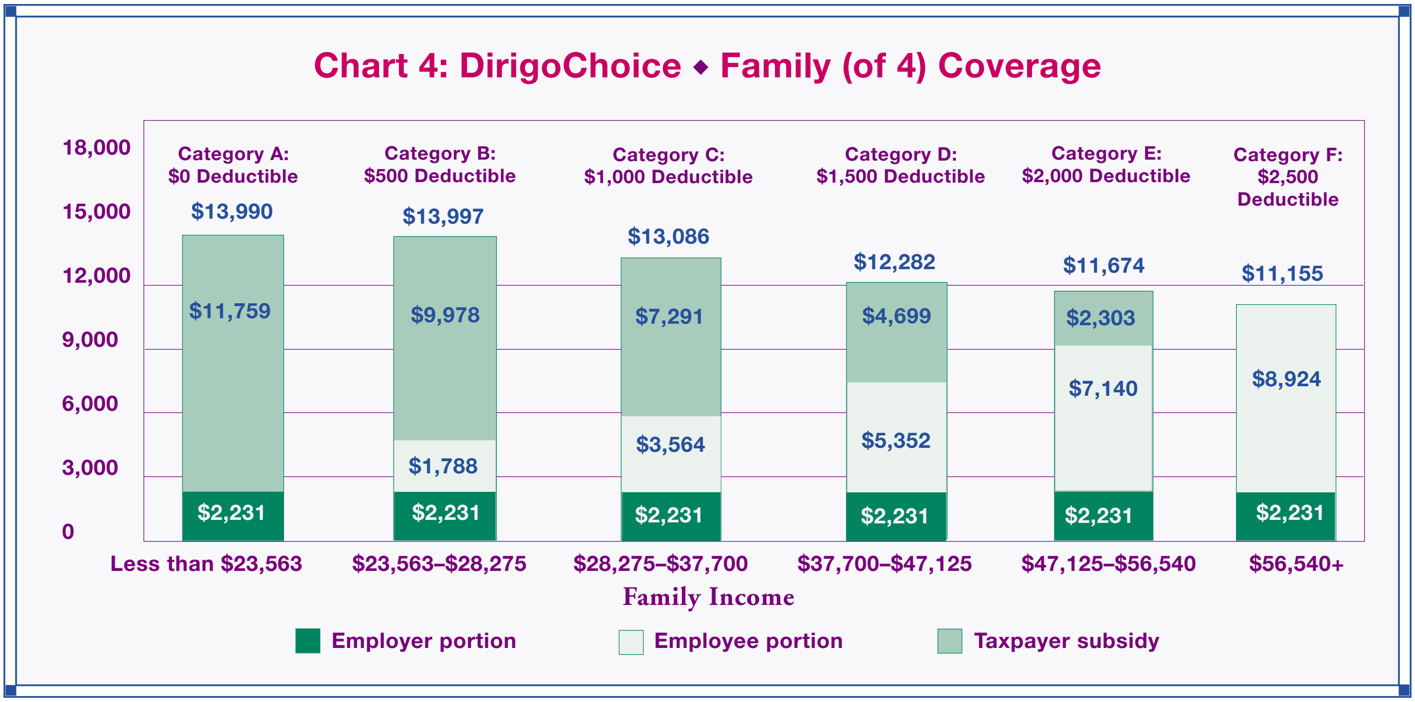
◆ Bob is single and earns $9 per hour and works full-time. He pays a net cost of $600 per year with a $500 deductible, based on his $18,000 annual income. His employer gives him a cost of living raise of $.50 an hour. Bob's income is now $19,000 a year. He will now pay $888 a year with a $500 deductible. Bob's $1,000 COLA costs him $288 more in increased premium plus $250 more in a higher deductible. **This $1,000 raise results in an effective DirigoChoice marginal tax rate of 53.8% based on these increased costs and reduced benefits, not to mention the higher state income and federal income tax withholdings.**

DirigoChoice's Fertility Bonus:

◆ Tom is married with one child. His household income is $24,000 per year, and he applies for a premium subsidy. Under DirigoChoice, he will pay $3,564 per year for his family plan with a $1,000 deductible, as his income is 150-200% of FPL. His coworker Rick is married with three children. His household income is $33,000, and he applies for a premium subsidy. Even though Rick earns 37.5% or $9,000 more than Tom, his insurance policy will cost only $1,788 with just a $500 deductible. Thus, Rick receives a $1,776 discount on his insurance and has a deductible that is $500 less than Tom even though he earns $9,000 more per year. Rick realizes a $2,276 DirigoChoice fertility bonus and can earn $9,000 more in income simply because he has three children. **Those with more children are rewarded under DirigoChoice even though in the private market their insurance premiums would be the same regardless of how many children they have.**

Chart 3: DirigoChoice ◆ Employee-Only Coverage





5. DirigoChoice requires a substantial cash flow commitment for the employees and has questionable tax implications.

Slightly different from the above charts, DirigoChoice will actually require employees to have the entire premium (less the employer's portion) deducted from their paycheck. For example, for a family of four with an income of $25,000 (between $23,563 – $28,275 annually in the previous chart), that employee will have about $226 deducted from his or her $480 gross weekly paycheck. Then the State, through Dirigo Health Agency, will pay back that employee $181 through a state-issued EFT card similar to the ones used for Food Stamp recipients. The net cost to the employee would then be $45 a week for the health benefit ($226 deduction plus $192 subsidy equals a net cost of $34). The State claims that this will all happen in the same day or with a minimal time delay. A concern is that the state has a track record of fiscal mismanagement and a looming shortfall of over $700 million. Of course, employers may remember that a couple years ago how Governor King delayed BETR reimbursement checks by months as a budget-balancing gimmick.

And then there are the potential tax implications. For individuals, payments from the state and local government are reported to the individual at the end of the year on a 1099-G, a copy of which is also passed on to the federal government. Therefore, individuals may have to report the value of their taxpayer-financed premium subsidy and pay taxes on this premium subsidy. It is not clear how this would all flow on the individual's 1040.

In Conclusion

DirigoChoice is confusing for both employers and employees. Buyers are wary of DirigoChoice with its excessive costs, complexities, information-reporting requirements, and 24 different plans. Steep premiums, deductible variations, marriage penalties, fertility bonuses, COLA crises, and questionable tax- and cash-flow implications make the program even more confusing and inefficient. **Disappointing sales show that Mainers are growing increasingly sceptical as they question the entire Dirigo Health program.**

**All figures and projections are taken from the Anthem Blue Cross Blue Shield DirigoChoice contracts with the State of Maine and the DirigoChoice.com website.*

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