

DirigoWatch

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Eight Challenges for Dirigo Health in 2006

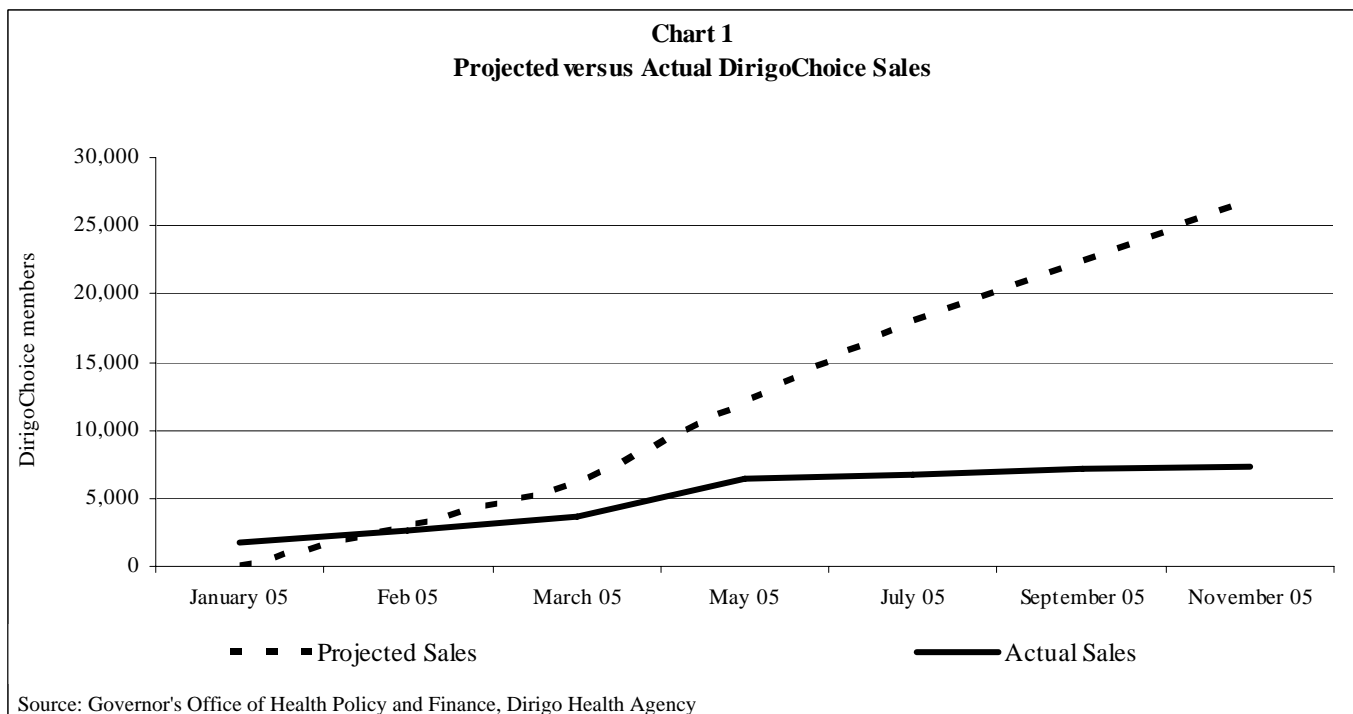
Thirty months after becoming law, Dirigo Health faces an uncertain future.

by Tarren Bragdon

When Dirigo Health was introduced in May 2003, supporters promised that this health reform initiative would accomplish three important objectives: eliminate all 130,000 uninsured Maine citizens within five years; be self-supporting with no new taxes or state funds (beyond the first year); and stabilize increases in health insurance premiums and healthcare cost.[1]

Now as Dirigo Health is in its third year of operation, how is it fairing on realizing these lofty goals? Not so well, according to analysis. In fact, the entire Dirigo Health initiative appears, for political purposes, to be on life support. In 2006, Dirigo Health and DirigoChoice face eight major challenges:

1. **Poor sales record**
2. **High dropout rate of enrollees**
3. **Poor performance of covering the uninsured**
4. **High costs to the taxpayer**
5. **Strong public reaction to the Savings Offset Payment (new Dirigo tax)**
6. **Discriminatory subsidy program creates incentives for employers not to provide health benefits**
7. **Uninsured rate remains unchanged despite the portion of those under 65 on Medicaid doubling in the last five years**
8. **Three quarters of enrollees are projected to opt for a higher deductible with a lower net premium**



Challenge 1 – Poor Sales Record of the DirigoChoice insurance product – DirigoChoice is 70% Below Original Projections.

Dirigo Health provided for a new state-designed, taxpayer-subsidized insurance plan marketed to individuals, sole proprietors and small businesses (under 50 employees). This new product, called DirigoChoice, is managed under a contract by Anthem Blue Cross Blue Shield of Maine. This contract expires December 31, 2006, but can be renewed.

In order to meet its goal of covering all the uninsured within five years, Dirigo Health was projected to sign up 31,000 people by December 2005.[2] However, DirigoChoice sales to date are 70% below projections (see Chart 1 and Table 1).[3]

Month	Projected	Actual
January 05	0	1706
March 05	6,000	3712
May 05	12,000	6366
July 05	18,000	6794
September 05	22,383	7147
November 05	26,767	7371
December 05	28,958	NA
January 06	31,000	NA
July 06	44,300	NA
January 07	52,050	NA
July 07	59,800	NA

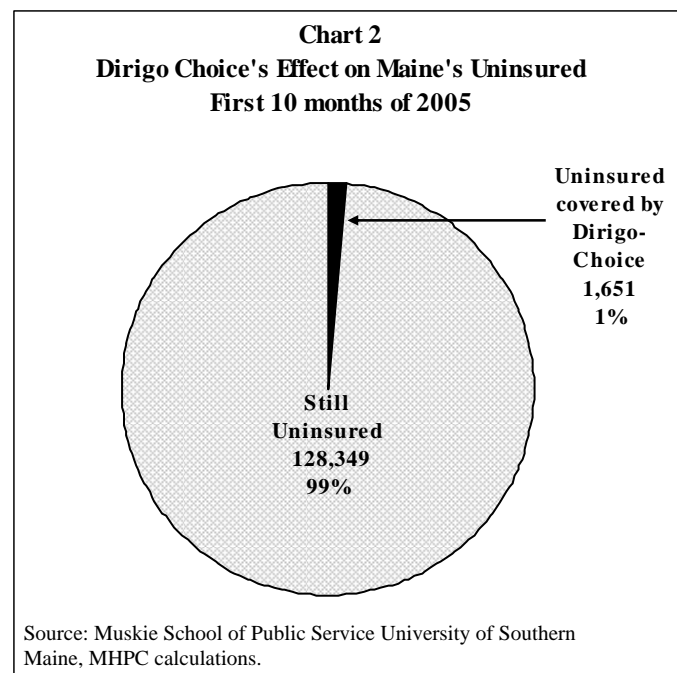
Source: Governor's Office of Health Policy and Finance, Dirigo Health Agency.

Challenge 2 – DirigoChoice’s High Dropout Rate – 12% of Enrollees Drop DirigoChoice within First Eight Months.

In November 2005, the Governor’s Office of Health Policy and Finance restated the number of DirigoChoice enrollees. In September 2005, the Office originally reported that the total number of people enrolled was 8,100.[4] However, just two months later a revised number revealed that approximately 1,000 people had dropped out of DirigoChoice after less than eight months, thereby lowering net enrollment to only 7,147 in September 2005.[5] In the aggregate, this means that one in eight people (12%) signing up for DirigoChoice dropped the plan after being covered within the first eight months. According to insurance experts, this dropout rate is significantly above the usual churn rate within private insurance.[6]

Challenge 3 – Poor Performance in Covering the Uninsured – Less than 1 in 4 Enrollees Were Uninsured.

In August 2005, the Muskie School of Public Service at the University of Southern Maine released the results of a study of DirigoChoice enrollees. The results of this survey showed that only 22.4% of those with DirigoChoice coverage were uninsured at the time they signed up for the plan.[7] Thus, the vast majority of people with DirigoChoice coverage had simply switched from other private insurance. In the first ten months of 2005, DirigoChoice reached an estimated 1,651 uninsured individuals (see Chart 2). Assuming that none of the 130,000 uninsured Mainers obtained health insurance coverage except through DirigoChoice, DirigoChoice reduced Maine uninsured rate from 12% of those under 65 years of age to 11.85%. At this rate, it will take almost 66 years – not five – to cover all 130,000 uninsured Maine citizens.



Challenge 4 – Dirigo Health’s Extremely High Costs to the Taxpayer – DirigoChoice Costs Taxpayers almost \$5,000 per DirigoChoice Enrollee per Year, with a Marginal Cost of almost \$16,000 per Uninsured Person Reached.

In October 2005, the Dirigo Health Agency reported expenses through the first nine months of 2005. Based on these figures, the Dirigo Health Agency spent a net of \$19.5 million in taxpayer dollars through September 30, 2005.[8] Table 2 shows the breakdown of the expenses and the annualized per member estimates, based on costs for the first nine months.

As noted above, given that only 1,651 uninsured individuals have purchased DirigoChoice, DirigoChoice has an annual-

ized marginal cost per uninsured person covered of \$15,929 (based on \$19.5 million to reach 1,651 for just 9 months).

Challenge 5 – Strong Public Reaction to the New Savings Offset Payment (Dirigo Tax) – The New 2.408% Health Claims Tax will Increase Mainers’ Health Insurance Premiums by \$44 million.

Based on the DirigoChoice taxpayer costs of almost \$16,000 per uninsured person covered per year, eliminating all 130,000 uninsured through Dirigo would cost over \$2 billion a year -- or more than one and half times the total raised by Maine’s income tax.[9]

Trying to assess Dirigo’s influence on the entire health care system has been controversial. The Dirigo Health Agency, working with a paid-consulting firm, Mercer Government Human Services Consulting , first identified \$137 million in Dirigo Health-attributable savings. However, this initial figure was questioned. After a several month process, the Maine Superintendent of Insurance certified \$44 million in Dirigo savings.[10] Of these savings, \$34 million was attributed to Maine’s 39 non-profit hospitals voluntarily limiting operating margins and cost increases. Another \$7 million was a result of the state’s Medicaid program paying back debts and increasing physician reimbursement rates, although they still remain far below actual cost. Using this logic, the Maine taxpayer spent \$7 million to save \$7 million. The effect of DirigoChoice reaching the uninsured was estimated to have reduced bad debt and charity care by \$2.7 million. Therefore, Dirigo Health spent \$19.5 million in the first nine months of 2005 to reduce bad debt and charity care by \$2.7 million. This equals a negative 86 percent return on investment.

After identifying the \$44 million in Dirigo Health savings, Dirigo Health taxes those with private coverage (called a Savings Offset Payment) to recover savings that the program created. On November 22, 2005, the Dirigo Health Board voted to extend a new 2.408% claims tax (savings offset payment) on all individual and small group policyholders as well as large companies that are self-insured using a third party administrator (TPA), or directly purchasing health insurance. [11]

The claims tax works similar to an excise tax. If individuals, or businesses, directly pay for healthcare through their insurance benefit, they now pay a new 2.4% ‘excise’ tax on these paid claims. The tax will cost an individual about \$75 a year and a family about \$200 a year.[12] [13]

Challenge 6 – DirigoChoice’s Discriminatory Subsidy Program Creates Incentives for Employers Not to Provide Health Benefits.

As currently structured, DirigoChoice provides much greater subsidies to individuals purchasing DirigoChoice as a sole proprietor, rather than their employer. Small businesses providing DirigoChoice pay much higher net premium costs (employer’s portion plus the employee’s net portion). Charts 3A and 3B show this dramatic net premium difference.[14] The reason for this significant net cost difference lies in the structure of the DirigoChoice subsidy.

For small businesses, employers are required to pay at least 60% of the employee-only premium. Employees of small businesses then receive subsidies for their portion based on income. The employee subsidy is the full 40% (100% of the employees’ portion) for those in Category A with incomes at 100% of poverty (\$9,570 per year) and decreases to just an 8% subsidy (20% of the employees’ portion) for those in Category E with incomes between 250 and 300% of poverty. No subsidy is provided for those in Category F with incomes over 300% of poverty (over \$28,710 per year). See the Appendix for a DirigoChoice Category explanation.

For sole proprietors and individuals purchasing coverage not through their employer, there is no minimum ‘employer’ contribution as there is no ‘employer.’ Therefore, the subsidy is calculated on the entire premium. The subsidy is 100% for those in Category A, 80% for Category B, 60% for Category C, 40% for Category D, 20% for those in Category E and 0% for those in Category F (see chart 3B).

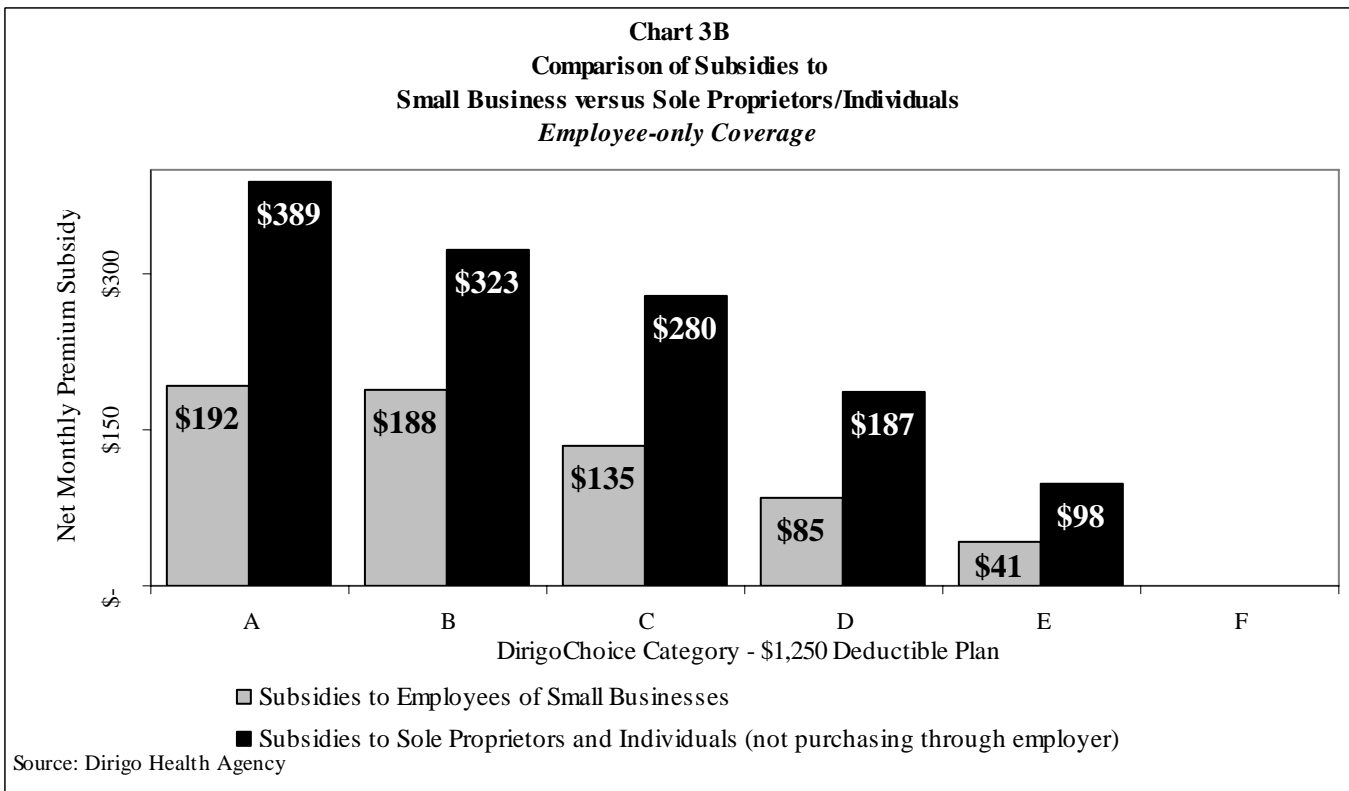
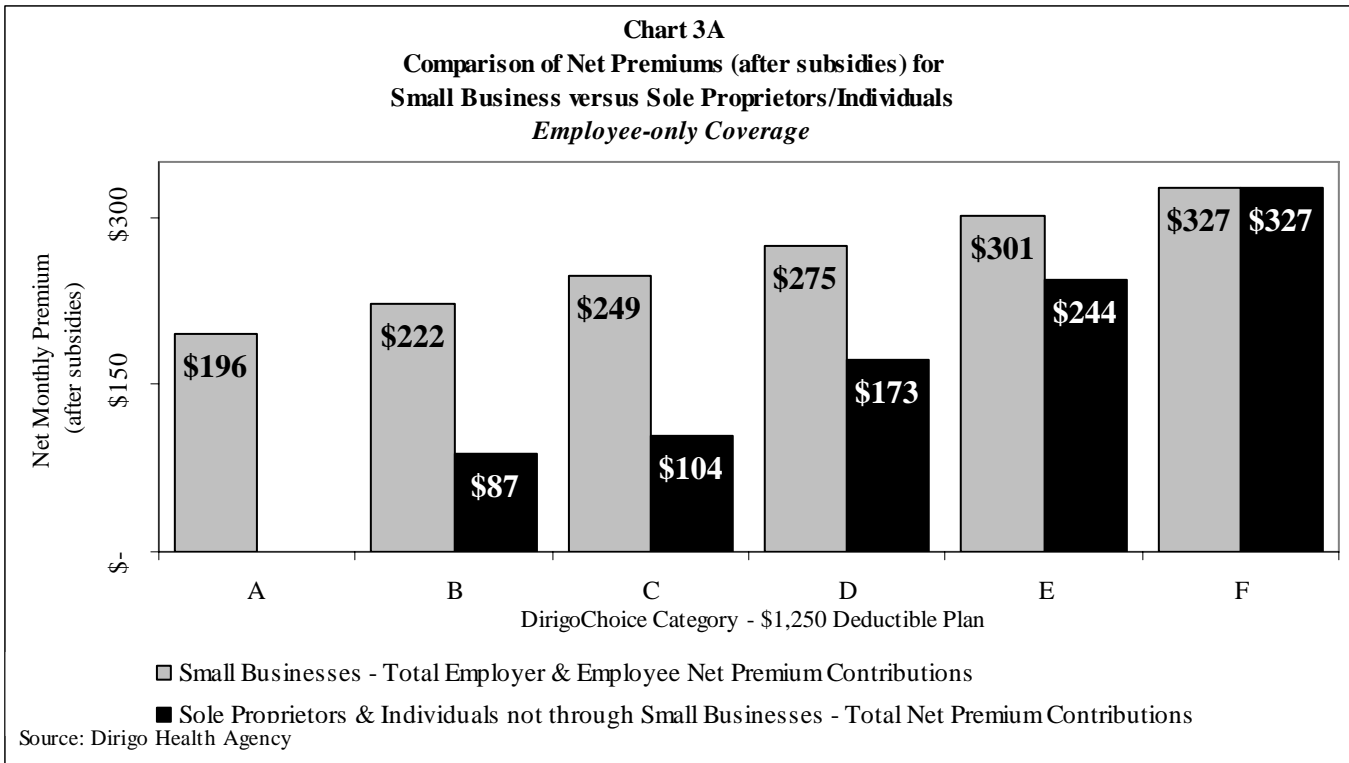
This subsidy structure provides little incentive for small businesses to sign up. In fact, the majority (56%) of those with DirigoChoice coverage are purchasing as individuals or sole proprietors. When DirigoChoice was first passed in 2003, it

**Table 2
Dirigo Health Agency Expenditures from January 1, 2005 through September 30, 2005**

Category of Expenditure	Total Dirigo Health Spending (2005)	Estimated DirigoChoice Costs (per member per year)
Dirigo Health administrative	\$5,407,438	\$1,376
Subsidies paid to employees	\$5,117,429	\$1,303
Payments to Anthem BC/BS	\$23,226,996	\$5,912
Premium Contributions	(\$14,218,734)	(\$3,619)
Net cost to taxpayers	\$19,533,129	\$4,972

Source: Governor’s Office of Health Policy and Finance, Dirigo Health Agency.

was estimated that only 21% of the almost 187,000 people and individuals not working at small businesses.[15] eligible for DirigoChoice coverage would be sole proprietors



Challenge 7 – Maine’s Uninsured Rate Remains Unchanged Despite the Portion of Those Under 65 on Medicaid Doubling in the Last Five Years.

According to the latest figures from the US Census Bureau, Maine’s uninsured rate over the last five years (as a portion of the under 65-year-old population) has remained at 12-13%. [16] However, the portion of Mainers on Medicaid has more than doubled. Chart 4 shows in the aggregate Mainers are trading private insurance for Medicaid, not moving from being uninsured to Medicaid. Indeed, because Maine health insurance regulations are so costly, lower income Mainers have two choices: expensive insurance, or Medicaid. This erosion of private insurance and expansion of Medicaid has dramatic implications for Maine healthcare providers. These healthcare providers are reimbursed far below cost for Medicaid services and must increase rates in self-pay and privately insured individuals to make up the difference.

Challenge 8 – 76% of DirigoChoice Enrollees Are Projected to Opt for a Higher Deductible with a Lower Net Premium Policies.

The Dirigo Health Agency has released projections for those purchasing DirigoChoice in 2006. Interestingly, the Dirigo Health Agency projects that three in four (76%) DirigoChoice enrollees will purchase the higher deductible Option 2 plan (\$1,750 individual/\$3,500 family deductible at the Category F level).[17] Clearly, even DirigoChoice enrollees understand that it is often better to reduce your premium costs by purchasing a catastrophic deductible and pay first-dollar expenses out of pocket. In fact, federal data collected by the Agency for Healthcare Research and Quality shows that over half of

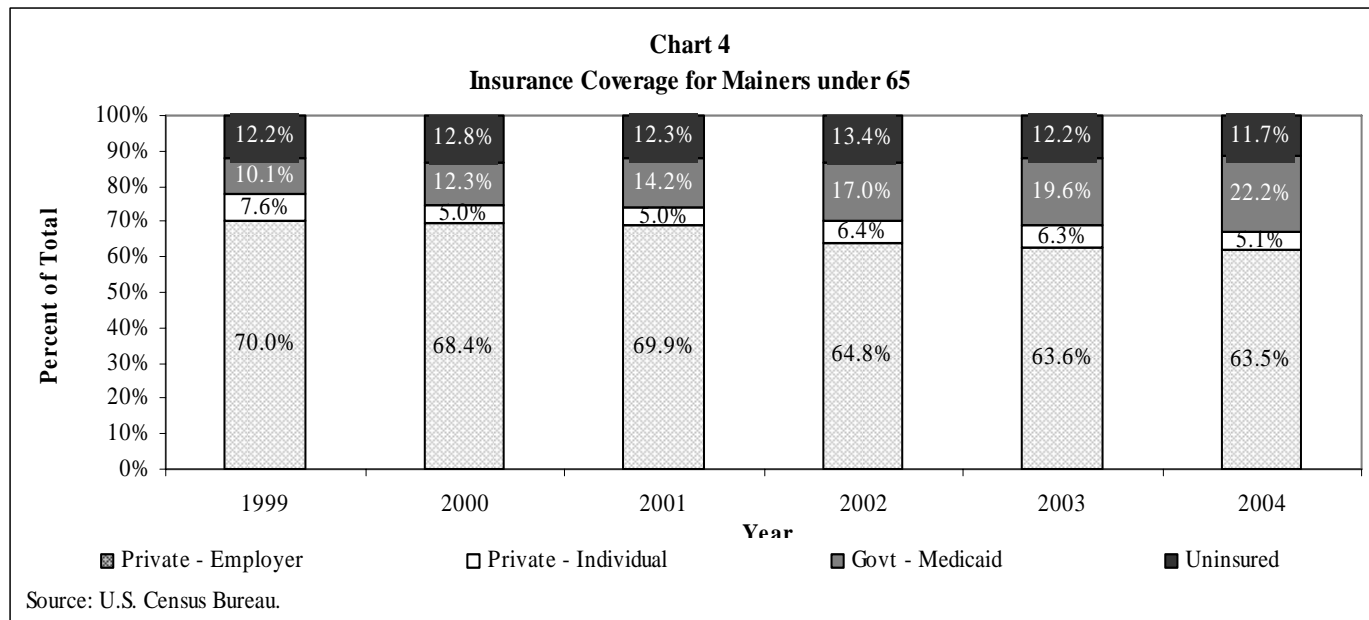
individuals 18-45 years old with private health insurance will use less \$1,000 in healthcare in a given year.[18]

Recommendations — Pursue proven reforms that increase competition in the health insurance market.

Dirigo Health is premised on lofty, worthwhile goals – to reduce the costs of healthcare and health insurance and reduce the number of uninsured. However, its approaches and major policies are, as these first thirty months have shown, ineffective and costly. It is time for policymakers to rethink Dirigo and enact proven health reforms working in other states:

1. Eliminate Maine’s costly health insurance regulations of community rating in the individual and small group markets and guaranteed issue in the individual market. The only affordable insurance option for lower-income families should not be Medicaid. It is not that way in other states. It should not be so in Maine.
2. Enact a high risk pool for the individual market to ensure coverage for the very sick while still maintaining affordable coverage for the population as a whole.
3. Make Maine’s healthcare sector more competitive by repealing Certificate of Need and Rule 850 (which does not allow insurer-negotiated reimbursement outside certain geographic areas), both of which limit or eliminate provider and price competition.

This is not, in any measure, an exhaustive list. In the summer of 2006, The Maine Heritage Policy Center will release comprehensive healthcare reform recommendations for Maine.



Notes

- [1] Statements from the Governor's Office of State Health Policy and Finance website. www.maine.gov/governor/baldacci/healthpolicy/launching_dirigo_health/
- [2] IBID. www.maine.gov/governor/baldacci/healthpolicy/launching_dirigo_health/fast_facts_42304.htm
- [3] "Dirigo Health Cash Status and Projection." Dirigo Health Board of Directors Meeting. November 10, 2005. www.dirigohealth.com/Cash%20Position%20-%20111005.pdf.
- [4] "Governor Celebrates Dirigo Health Reform's 2nd Anniversary - Announces New Quality Initiative." Governor's Office of Health Policy and Finance. September 14, 2005. www.maine.gov/governor/baldacci/healthpolicy/news/9_14_05.htm
- [5] Dirigo Health Cash Status and Projection.
- [6] Author's conversation with Anthem officials. December 7, 2005.
- [7] Bowe, Taryn. "DirigoChoice Member Survey: A Snapshot of the Program's Early Adopters." *Muskie School of Public Service*, August 12, 2005, Tables 4 and 6. Pages 7-8, at www.maine.gov/governor/baldacci/healthpolicy/Dirigo%20Survey%20PDF%2008-15-05.pdf
- [8] Maine Legislature's Office of Fiscal and Program Review. 2004-2005 Dirigo Health Fund Status (dated 10/17/05) and 2006-2007 Dirigo Health Fund – Budgeted Status (dated 10/18/05).
- [9] Maine 2004/2005 General Fund Income Tax collections: \$1,259,880,674. "General Fund Budgeted Undedicated Revenue for FY 2003-04 and FY 2004-05." Maine Legislature's Office of Fiscal and Program Review. www.maine.gov/legis/ofpr/04gfv.htm
- [10] Maine Superintendent of Insurance Alessandro A. Iuppa. REVIEW OF AGGREGATE MEASURABLE COST SAVINGS DETERMINED BY DIRIGO HEALTH FOR THE FIRST ASSESSMENT YEAR. October 29, 2005. www.state.me.us/pfr/ins/ins05700Dirigo.htm
- [11] Dirigo Health Board of Directors. Meeting Minutes. November 22, 2005. p. 4-5 www.dirigohealth.com/FINAL%20Board%20minutes_112205.pdf
- [12] Kaiser Family Foundation. 2003 premium figures. www.statehealthfacts.org/cgi-bin/healthfacts.cgi?action=compare&category=Managed+Care+%26+Health+Insurance&subcategory=&topic=&link_category=Health+Costs+%26+Budgets&link_subcategory=Employment%2dBased+Health+Premiums&link_topic=Single+Coverage&viewas=&showregions=0&sortby=&printerfriendly=0&datatype=currency (single coverage) and www.statehealthfacts.org/cgi-bin/healthfacts.cgi?action=compare&category=Managed+Care+%26+Health+Insurance&subcategory=&topic=&link_category=Health+Costs+%26+Budgets&link_subcategory=Employment%2dBased+Health+Premiums&link_topic=Family+Coverage&viewas=&showregions=0&sortby=&printerfriendly=0&datatype=currency (family coverage)
- [13] This is in addition to Maine's 2% premium tax on all non-HMO insurance products.
- [14] Harrington, Karenlee. Memo to the Maine Legislature (AFA, HHS & IFS Committees). September 30, 2005. page 3. Premiums as of October 1, 2005.
- [15] Maine Legislature's Office of Fiscal and Program Review. Fiscal Note spreadsheet. "LD 1611 - An Act To Provide Affordable Health Insurance to Small Businesses and Individuals and To Control Health Care Costs." June 2003.
- [16] Table HI-6. Current Population Survey, 1988 to 2005 Annual Social and Economic Supplements U.S. Census Bureau. www.census.gov/hhes/www/hlthins/historic/hihist6.html
- [17] Dirigo Health Board of Directors. SOP Presentation. November 10, 2005. p. 3. www.dirigohealth.com/SOP_PresentationtoBoard_111005.pdf
- [18] Household Component Analytical Tool (MEPSnet/HC). October 2005. Agency for Healthcare Research and Quality. www.meps.ahrq.gov/mepsnet/HC/MEPSnetHC.asp.

Methodology and Appendix

Chart 1 and Table 1, “DirigoChoice Projected to Actual Sales” – compared 2005 sales projections to actual DirigoChoice enrollees for the same period.

Chart 2, “DirigoChoice’s Effect on the Uninsured” – assumed the number of uninsured remained unchanged at 130,000 and that the 22.4% of DirigoChoice enrollees who were uninsured were part of the total 130,000 estimate.

Table 2, “Dirigo Health Agency costs” – all actual revenue and expenses assigned to the Dirigo Health Agency from January 1, 2005 to September 30, 2005 were used for these calculations.

Chart 3A and 3B, “DirigoChoice Subsidies” – Subsidy calculation include direct subsidies paid to the employee or individual as well as the indirect subsidy paid to Anthem to reduce the deductible for categories A through E.

The Impact of Savings Offset Payment for an individual and family policy calculations were based on a 2.408% tax on 80% (typical portion attributable to claims) of the reported average Maine health insurance premiums for individuals and families.

Calculations of Healthcare Consumption by Insured Adults were based on 2002 MEPS figures, updated to 2005 using 8% per year inflation for full-year, private insured in Northeast.

Appendix		
DirigoChoice Employee Subsidy Categories A Through F		
Category	Income Level (Percent of Federal Poverty Level)	Dirigo Subsidy of the Employee Contribution
*A	0 - 100%	40%
B	101 - 150%	32%
C	151 - 200%	24%
D	201 - 250%	16%
E	251 - 299%	8%
F	300%+	\$0

* Or Medicaid eligible

Source: Governor's Office of Health Policy and Finance, Dirigo Health Agency.

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DirigoWatch is a quarterly publication of The Maine Heritage Policy Center that provides research, updates and commentary on the state-run Dirigo Health initiative. All information is from sources considered reliable, but may be subject to inaccuracies, omissions, and modifications.

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