



HHC DOC # 2010-220

2/23/10

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Neale F. Lunderville, Secretary

MEMORANDUM

TO: Representative Steve Maier, Co-Chair, Health Care Reform Commission
Senator Jane Kitchel, Co-Chair, Health Care Reform Commission
FROM: Neale F. Lunderville, Secretary *Neale F. Lunderville*
DATE: February 17, 2010
RE: Recommendation on Reducing the Waiting Period for Premium Assistance and VHAP

As required by Act 203 of 2008, attached is the Administration's recommendation on whether to proceed with reducing the waiting period for uninsured Vermonters to enroll in the Catamount Health and Employer-Sponsored Insurance premium assistance programs and the Vermont Health Access Plan (VHAP). The Administration is recommending against reducing the waiting period for the reasons set forth in the attached report.

We would be happy to answer any questions you have.

Thank you for your consideration.

cc: Jim Hester
Heidi Tringe
Robert Hofmann
Suzanne Santarcangelo
Susan Besio
Betsy Forrest

RECOMMENDATION TO:
THE HEALTH CARE REFORM COMMISSION
ON
REDUCING THE WAITING PERIOD FOR PREMIUM ASSISTANCE AND
VHAP

Prepared by the Office of Vermont Health Access and Submitted by the Secretary of
Administration

February 12, 2010

Executive Summary

On December 23, 2009, the Office of Vermont Health Access was informed by the Centers for Medicare and Medicaid (CMS) that its waiver amendment request to reduce the waiting period for enrollment in the VHAP, Catamount Health premium assistance, and Employer-Sponsored Insurance (ESI) premium assistance programs from 12 months to six months was approved. The Administration recommends against reducing the waiting period primarily due to the fiscal impact of doing so. Reducing the waiting period would expand eligibility for these programs to additional uninsured Vermonters at an estimated cost of \$865,000 to \$1.3 million, depending on the impact of “crowd out,” which is the effect caused by people who drop current coverage and wait until they become eligible to enroll in state-sponsored programs.

The chart below shows the cost estimates if there were no crowd-out effect, and the cost estimates for varying levels of crowd-out from 100 additional enrollees to 300 additional enrollees.

ESTIMATED COST OF REDUCING THE WAITING PERIOD			
	# new enrollees	GROSS	NET (STATE)
With no crowd-out	1030	\$2,094,545	\$864,628
With crowd-out 100	1130	\$2,452,183	\$1,012,261
With crowd-out 150	1180	\$2,631,002	\$1,086,078
With crowd-out 200	1230	\$2,809,821	\$1,159,895
With crowd-out 250	1280	\$2,988,640	\$1,233,712
With crowd-out 300	1330	\$3,167,459	\$1,307,529

Introduction

Act 203 of 2008 contains the following language:

Sec. 5. EXPANDING ACCESS TO CATAMOUNT HEALTH

(a) No later than February 1, 2009, the secretary of human services shall apply to the federal Centers for Medicare and Medicaid Services for a waiver amendment to allow Vermont to shorten the waiting period for coverage under Catamount Health and the Vermont health access plan to six months from the current 12 months. Within 60 days following approval of the waiver, the secretary of administration shall submit to the commission on health care reform created pursuant to section 901 of Title 2 a recommendation on whether to proceed with reducing the waiting period. Upon receipt of the secretary's recommendation, the commission on health care reform shall consider:

- (1) the availability of resources;
- (2) issues surrounding implementation; and
- (3) potential benefits to the health care system.

(b) The commission on health care reform shall make a recommendation to the senate committees on health and welfare and on appropriations and the house committees on health care and on appropriations on whether to proceed with or delay implementation of the reduction in the waiting period. The committees shall present their recommendations to the general assembly, which shall make a determination whether to proceed with implementation of the reduced waiting period.

As required by Act 203, on March 5, 2009, the Agency of Human Services submitted to CMS a waiver amendment request that included several proposed changes to Vermont's program, including the reduction in the waiting period from 12 to six months. CMS approved this request on December 23, 2009. This report fulfills the Secretary of Administration's obligation under (a) above.

Background

Generally states (including Vermont) do not impose eligibility waiting periods for traditional Medicaid categories. Also, beneficiaries may have and maintain private insurance in addition to Medicaid coverage. VHAP, Catamount Health, and the new premium-assistance programs deviate from these rules. These programs do not expand coverage across the board; they are targeted efforts, aimed at reducing the number of uninsured. By design, those with the wherewithal to independently secure coverage are not included in the program. While this approach reasonably directs limited public funds toward the resolution of a focused health-coverage problem, it creates a disparity that may motivate the substitution of public for private insurance.

Such substitution, or “crowd-out,” may manifest in several forms:

- *People drop private coverage for public:* A person or family drops private insurance—either employment based or individually purchased—to enroll in public coverage.
- *A public program enrollee refuses an offer of private coverage:* Someone with public coverage refuses an employer’s offer of insurance, which that person would have accepted in the absence of the public program. This phenomenon is known as “within enrollment” crowd-out.
- *An employer changes coverage offerings in response to the existence of a public program:* An employer changes elements of its insurance offerings—for instance, dropping dependent coverage or increasing employee premiums—resulting in an employee losing or deciding to drop private coverage and enrolling in a public health insurance program.

Public Program Crowd-Out of Private Coverage: What are the Issues? Robert Wood Johnson Foundation, Policy Brief No. 5, June 2004, available at http://www.rwjf.org/pr/synthesis/reports_and_briefs/pdf/no5_policybrief.pdf.

Substitution certainly benefits those who are in need of financial relief. However, it also increases the public cost of reducing the number of uninsured: As those who would have otherwise maintained private coverage without assistance migrate to public programs that were intended for the uninsured, the overall cost of achieving program objectives increases. It may also tend to reduce employers’ contributions toward the cost of coverage. Increases in the availability of publicly-sponsored insurance could motivate employers to withdraw their fiscal and programmatic support for health-care benefits. This, in turn, tends to undermine the private insurance market.

VHAP and the premium assistance programs (Catamount Health and Employer-Sponsored Insurance)—like many other states’ expansion programs—impose an eligibility waiting period to deter crowd-out. Unless they are exempted, otherwise qualified people must remain uninsured for twelve months before they can access benefits. This “lockout” is intended to discourage people from dropping private coverage and to dissuade employers from reducing or discontinuing sponsored insurance programs.

The original VHAP rules, which were promulgated in 1995, included a list of exceptions, or to the waiting period, or “qualifying events;” this list has been expanded over the years by legislative action to include the following reasons for loss of coverage within the prior 12-month period:

- Loss of employment, including a reduction in hours that results in ineligibility for employer-sponsored coverage, unless the employer has terminated its employees or reduced their hours for the primary purpose of discontinuing employer-sponsored coverage and establishing their eligibility for Catamount Health;
- Death of the principal insurance policyholder;

- Divorce or dissolution of a civil union;
- No longer receiving coverage as a dependent under the plan of a parent or caretaker relative;
- No longer receiving COBRA, VIPER, or other state continuation coverage.
- College- or university-sponsored health insurance became unavailable to the individual because the individual graduated, took a leave of absence, decreased enrollment below a threshold set for continued coverage, or otherwise terminated studies.
- Domestic violence.

Therefore, if an individual loses private insurance coverage for any of the above reasons, the 12-month waiting period is not imposed, allowing the eligible individual to enroll immediately in VHAP, Catamount Health, or the premium assistance programs. The amendment under consideration would reduce this waiting period to six months.

There is much literature on crowd-out, including some attempts to estimate its impact, but there is almost no research on the crowd-out effects of public-funded programs for adults, such as Vermont's VHAP and Catamount premium assistance programs.

Methodology for cost estimate

The Office of Vermont Health Access (OVHA) worked with the Joint Fiscal Office to develop a cost estimate for reducing the waiting period from 12 to six months. Data from the 2008 BISHCA Household Health Insurance Survey was used to determine the number of Vermonters who had been uninsured for a six- to twelve-month period at the time of the survey, since these Vermonters would comprise the pool of people who could take advantage of the reduced waiting period. A take-up rate was developed by using VHAP as a proxy and determining how many Vermonters who are eligible for VHAP are enrolled (again, using data from the 2008 BISHCA survey). The conclusion was that out of the 1421 people who, at the time of the survey, had been uninsured at least six months but not more than 12 months, and whose reason for being uninsured did not meet the "qualifying event" criteria described in the above section, 72%, or 1030 people, would enroll in VHAP or Catamount premium assistance if the waiting period were reduced to six months.

The estimated costs were based on consensus estimates of per-member-per-month costs and the regular federal match rate for SFY 11. The likely effect of crowd-out is difficult to determine. It is likely that some number of people who are currently enrolled in private insurance plans that are either more costly or less comprehensive than VHAP or Catamount Health would be willing to risk dropping their plans and waiting six months, whereas they were not previously willing to risk going 12 months without insurance; however, there is no research that would inform an estimate of the size of this group. The cost estimate, therefore, includes a range of costs to account for the possibility of various levels of crowd-out.