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C O M M E N T A R Y

Dirigo Health: Its Opportunities and Obstacles

By Godfrey Wood

The Portland Regional Chamber applauds Governor Baldacci for his commitment to reform Maine's health care system by providing accessible and affordable coverage to the uninsured, by reducing cost increases, and by implementing a sustainable state health plan. We support the goal of providing affordable health care to every resident in Maine and agree with the need to reform Maine's health care system. But we have serious concerns about how Dirigo Health will be financed and sustained as well as its unintended consequences.

As the largest organization in Maine representing small business, we work closely with small employers throughout the state, and serve as their collective voice. Dirigo Health's target market of small businesses is well represented by this chamber, with more than 1,100 of our members having fewer than 50 employees. Small business is where most job opportunities are created, and while employers want to provide strong benefits, they face tough challenges: high taxes and an uncertain economy. Almost unanimously, they identify their desire to provide health coverage for their workers, but stress the enormous costs of affording coverage. They are looking for help.

Dirigo Health is designed to assist small employers in offering affordable health insurance. However, surveys of our members and other small employers have found results that call into question

whether Dirigo Health will reduce costs, and thus be of interest to small employers once they see the "bottom line."

There is much of this plan we believe is good and represents great progress. Still, if its financial foundation is flawed, success will be minimal and the plan will fail after significant taxpayer expense. So, we approach Dirigo Health from a business standpoint and ask: How can we control spending growth, and have a marketable product that will be affordable and sustainable? Because if we cannot, then government (meaning taxpayers) will be the financing mechanism.

QUESTIONS ABOUT DIRIGO HEALTH

Who are the uninsured (in other words, what is the market)?

Dirigo Health data suggest that there are 189,500 uninsured in Maine, roughly 14% of our population. However, that number decreases by almost 50% when adjusted to exclude those who were temporarily uninsured for less than six months. So, who is that "chronically uninsured" population?

Seventy percent of Maine's uninsured are employed (130,000). Of this employed-but-uninsured group, almost 40% are self-employed (53,000); only 13% are full-time workers (17,000). Surveys indicate that 40% of small employers do not offer coverage; these are the smaller employers, generally with between 2-20 employees. Employees are uninsured either because the company cannot afford it, or if there is a plan, the employee cannot afford it or chooses not to participate (62,000).

Governor Baldacci is right; we need to offer a plan that is affordable to small employers. The numbers tell us that the market is huge. If everyone participates, 132,288 more Mainers will be insured.

Can the market afford Dirigo Health? Will its plan be less expensive?

Employers will buy the Dirigo Health Plan if it is less expensive than their current plan, and/or if there are financial incentives for them, and/or if they need to do so to remain competitive. Because of Dirigo Health's reliance on multiple funding sources, which include a mix of federal matching funds, Dirigo Health places new requirements on businesses in Maine. Specifically, Dirigo Health requires that businesses pay 60% of premiums (including family members), cover part-time workers, ensure that at least 75% of employees participate, and offer a benefit-rich plan.

Placing such requirements on small businesses (and, implicitly, on employees' share) will make the Dirigo Health Plan unaffordable for the vast majority of Maine's small businesses. How do we know?

Our surveys of brokers and of 72 small business respondents indicate that meeting these requirements will result in a plan that is substantially more expensive for roughly 80% of Maine's small employers. For example, the average small business in Maine does not pay 60% of premiums nor does it provide coverage to all dependents and part-time workers, or to at least three-quarters of its employees; generally it offers a plan that is significantly less rich than what is called for in Dirigo Health. Employers look at the gross dollars they can afford to offer coverage and then seek the best possible plan for their employees.

The plan does not contemplate any assistance to employers—only to certain low-wage employees for their share of premiums. While many employers desire to help their low-wage workers by helping them obtain access to subsidies, they will not be able to do this without paying dramatically higher costs. Their employees

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are able to join Medicaid regardless of whether the employer offers Dirigo Health. With Medicaid's richer benefits, employees who are eligible for Medicaid will save their employers and themselves by enrolling in Medicaid directly.

It is therefore likely under this design that enrollment in Dirigo Health will be minimal, meaning few currently uninsured workers actually will obtain coverage. Since this is the exclusive means by which the plan obtains increased and even universal coverage, employer affordability must be addressed.

How will Dirigo Health be financed? Does the financing work?

According to the state's Office of Health Policy and Finance, the total cost of insuring Maine's uninsured—assuming a modest \$3,600 annual individual premium—will be a staggering \$682,293,600 per year. The proposed sources of financing are: premiums paid by employers not currently offering coverage (\$323,786,000); currently non-participating employees and individual premium payments (\$94,302,000); federal Medicaid match (\$181,251,000); potential savings from reducing bad debt and charity care (\$83,085,000).

These financing sources for Dirigo Health are questionable. The plan may not be sustainable without taxpayer support. Why?

Employer Premiums. While it is desirable to have small businesses pay for better benefits for more people, expecting small businesses will be able to come up with millions of additional dollars per year for health benefits is unrealistic.

Individual and employee premiums. The state's models show participation by enrollees, including individuals and workers, most of whom are currently uninsured either by choice or due to financial hardship. It is unrealistic to

expect that this population would now be voluntarily willing and able to spend the anticipated premium amount per year for health coverage.

Federal Funds. The plan also includes a proposal to collect employer premiums, and have them qualify for federal Medicaid matching funds. It is questionable as to whether this would really be allowed, and what would happen when larger states tried to tap this same source.

CONCLUSION

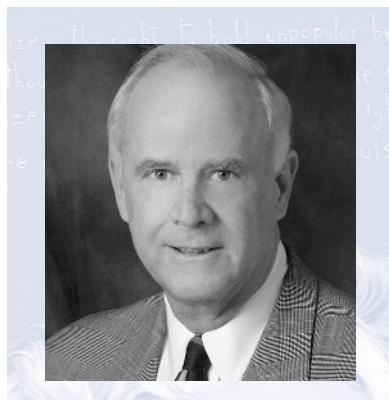
There is much good in Dirigo Health. The intentions are solid and right. However, at the end of the day, if the plan is not more affordable to individuals and small businesses, it will not have the "uptake" needed to access federal funds (if allowed), and to resolve the problem of so many uninsured in Maine.

In the meantime, enrollment in Maine's Medicaid program is swelling and cost increases are alarming. More and more health care providers are refusing to accept Medicaid patients, because with our below average reimbursement rates, they lose money. Those who continue to take Medicaid patients recover the losses by increasing charges to insured patients, raising premiums and thereby exacerbating our affordability problem.

We believe that there is an incremental approach that is more affordable and more sustainable. Recently, insurance premiums have dramatically leveled off, as carriers have rebuilt their reserves and created more affordable plans. Now, many employers are asking employees to take more financial responsibility for their health care purchasing decisions, and to seek more information on costs of treatment and the performance of their caregivers.

It is clear that some insurance is better than none, and that perhaps Maine businesses, individuals, and taxpayers cannot

afford what is proposed under Dirigo Health. If true, then there is a more-affordable intermediate step of providing coverage for health care expenses that are above certain limits. Such a step would require much less employer expense, more employee information and financial participation, and less up-front employee expense. Those who advocate a government-funded single-payer system call these types of plans "catastrophic" or "underinsured." But properly structured, a suite of plans that includes premium-sharing, co-pays, co-insurance, and sharing of deductibles can be affordable for employers and employees alike. To succeed in covering our uninsured, Dirigo Health needs to be realistic about what we all can afford, and who really is "paying" for it. ☙



Godfrey Wood is CEO of the Portland Regional Chamber and president of the Chamber Health Alliance. He served as a member of Governor Baldacci's Health Advisory Team and its Benefit Design Task Force, and as chair of the board of the state's Maine Consumer Choice Health Plan Board, appointed by Governor Angus King.