

**House Republican Leadership Repeal and Replace Legislation:  
American Health Care Act  
March 7, 2016**

**Background:** The following is a WSHA analysis on the impact of the March 6 version of the American Health Care Act on hospitals in Washington State. The Congressional Budget Office has yet to score the bill or release estimates of the total coverage numbers from this plan. We believe the estimates, when released, will show significant reductions in the coverage expansions gained through the Affordable Care Act.

**MEDICAID ELIGIBILITY**

**Washington State:** Under the Affordable Care Act, Washington covered 600,000 newly eligible adults with incomes below 138 percent of the poverty level. The state is receiving generous federal match funds (about 90%). This contrasts with the usual Medicaid match rate of 50%.

**American Health Care Act:** Washington can continue its coverage for the newly eligible Medicaid adults, but with significant changes in funding. Newly eligible adults enrolled before January 1, 2020 will continue to be covered with 90% match into the future.

Beginning in 2020, the federal dollars that support newly eligible adults will drop dramatically. ***In terms of budget dollars, eventually Washington will need an additional \$1.2 billion or more per year to sustain coverage.*** The care for new adults enrolled in this category and the care for any adults new with a lapse in enrollment will get federal payments using the traditional 50% match rate. This means that over time, as new persons join the program and current enrollees leave, the state will need to pay half the cost of these enrollees.

**MEDICAID FUNDING**

**Washington State:** Currently Washington and other states decide Medicaid payment policies and make choices on Medicaid benefit packages. This, plus the underlying health care cost structure in the area, determine the state's per capita cost for Medicaid. These choices also impact the Medicaid yearly increases in cost per capita.

**American Health Care Act:** In the future, the federal government would contribute only a set amount per capita by type of enrollee (aged, blind and disabled, child, adult and other). Federal payment growth is limited to the medical consumer price index. If Washington's cost trend exceeds the allowed growth, the state must pay the difference or make other changes. This would mean cuts to enrollment, benefits, or potentially more cuts to provider reimbursement in our state. This puts enormous pressure on the state to keep the cost of care and growth rate low.

The bill sets the per capita amounts based on 2016 federal spending. The cap would be reduced by federal spending for our safety net assessment and other special programs. Washington has traditionally had a relatively low base per capita compared to other states and a relatively low growth rate. Washington ranked ninth lowest in spending per capita (in 2011) and its growth rate from 2000 to 2011 was 14<sup>th</sup> lowest. Washington State would be disadvantaged compared to other states where gains in efficiency may be easier to implement.

#### **HOSPITAL CUTS CONTAINED IN THE AFFORDABLE CARE ACT**

**Washington State:** Hospitals are incurring cuts in Medicare and Medicaid payments to pay for the coverage expansion in the Affordable Care Act. These cuts were calibrated based on the expansive coverage the Act provided. For Washington hospitals, over the next 10 years, the Act imposes cuts of about \$400 million in Medicaid Disproportionate Share Hospital payments, *and* almost \$4 billion in Medicare payments.

**American Health Care Act:** For expansion states, the bill repeals the Medicaid Disproportionate Share Hospital cuts beginning in FY 2020. Repeal of these cuts is permanent. ***The bill, however, does not restore the Medicare cuts – leaving Washington hospitals with nearly \$4 billion in cuts.*** WSHA is very concerned about these cuts, especially since the coverage numbers associated with this bill have yet to be released and appear to be inadequate.

#### **INSURANCE AND THE INDIVIDUAL MARKET**

##### **Purchasing Insurance**

**Washington State:** Washington currently has about 120,000 people who have purchased health care insurance through the state's health benefit exchange using federal subsidies. Current subsidies are based on income. The non-subsidized premium cost for health insurance products offered on the exchange, with relatively robust benefits, ranges from about \$2,700 to \$4,800 annually for a younger person and about \$7,200 to \$12,000 annually for an older person. The exchange offers insurance products based on tiered status, with bronze plans offering the least amount of benefits and gold offering the most benefits.

**American Health Care Act:** The bill repeals the federal subsidies and replaces them with refundable tax credits for individuals without another source of coverage. For an interim period, the bill increases the tax credits for low income persons. Beginning in 2020, however, the tax credits are based only on age. The value of the tax credit starts at \$2,000 annually for individuals under age 30 and increases to \$4,000 annually for individuals under age 65. The credit phases out for high income individuals.

Based on current subsidies, the bill makes it less affordable for low-income people to purchase insurance. Individuals would have more incentive to purchase less generous coverage. While the amount of credit varies by age, it appears the credit amount for older Americans will not provide sufficient funds to purchase coverage.

The bill eliminates the benefit tier requirements (bronze, silver, gold) for products sold in the individual market and on the exchange. We expect this would allow insurers to offer more products, including those with larger deductibles and out of pocket maximums (catastrophic coverage.) The bill, however, does not include cost-sharing reductions available to many current exchange enrollees. The lack of these subsidies combined with continued high cost-sharing plans will likely result in more consumers struggling to finance deductibles, co-pays and coinsurance obligations.

### **Individual Mandate**

**Washington State:** Washington has several hundred thousand individuals covered through individual insurance. This includes those purchasing through the health benefit exchange and the non-exchange individual insurance market. Insurers are counting on the individual mandate to encourage enough younger and healthier consumers to enroll and create a stable, more affordable risk pool.

**American Health Care Act:** The bill eliminates individual and employer mandate penalties in 2016. Beginning in 2019, it provides incentives to purchase coverage as a way to keep healthy persons buying insurance. It does so by making insurance more expensive for those without continuous insurance coverage. The bill also attempts to promote stability by loosening requirements on age ratings for insurance. In addition, the bill would make innovation waiver funds available to states to help stabilize the market through high risk pools, payments to providers, assistance with premiums and cost sharing, and other programs.

### **AFFORDABILITY**

**Washington State:** Our state is working to bend the cost curve through value-based payment incentives. Washington has traditionally had fairly strong regulations to ensure reasonable benefits and adequate networks. It also has state limits on age band rating to keep insurance more affordable for the older populations.

**American Health Care Act:** The bill promotes health savings accounts by increasing the maximum amount of contributions. It also allows less comprehensive insurance coverage. The bill also allows insurers to increase premiums to older Americans by 5 to 1, instead of the 3 to 1 standard.

### **OTHER TAXES AND FUNDING**

**American Health Care Act:** As mentioned above, the bill does not repeal the hospital Medicare cuts. It does repeal essentially all the new taxes authorized by the Affordable Care Act, including the increase in the Medicare payroll tax for high earners, as well as fees on insurers, prescription drugs and medical device manufacturers, among others. The date of repeal varies

by tax. This means that any future increase in coverage at the federal level needs a new funding source.

#### **OTHER CONDITIONS ON ELIGIBILITY FOR MEDICAID COVERAGE**

- **Hospital Presumptive Eligibility:** The bill repeals the requirement that states must allow hospitals to make presumptive eligibility determinations for Medicaid. Washington hospitals currently use this process.
- **Retroactive Eligibility:** Beginning October 1, 2017, the bill limits retroactive coverage of Medicaid benefits to only one month, rather than the current three-month period.
- **Citizenship or Legal Resident Documentation:** Beginning October 1, 2017, individuals applying for Medicaid are required to present documentation of citizenship or legal status before coverage can begin.
- **Redeterminations for Medicaid Expansion Populations:** Beginning October 1, 2017, the bill requires Medicaid expansion states to re-determine Medicaid eligibility for expansion adults every six months. For about two years, the bill gives states some increased funds to help defray the additional administrative costs. Washington State currently determines eligibility annually for enrollees.

Claudia Sanders/Chelene Whiteaker March 7, 2017