

Crisis Cure

Published by The Maine Heritage Policy Center

Issue Three

A Series of Unfortunate Events:

June 30, 2009

Dirigo – Maine’s “Public Option” Is a Costly Failure

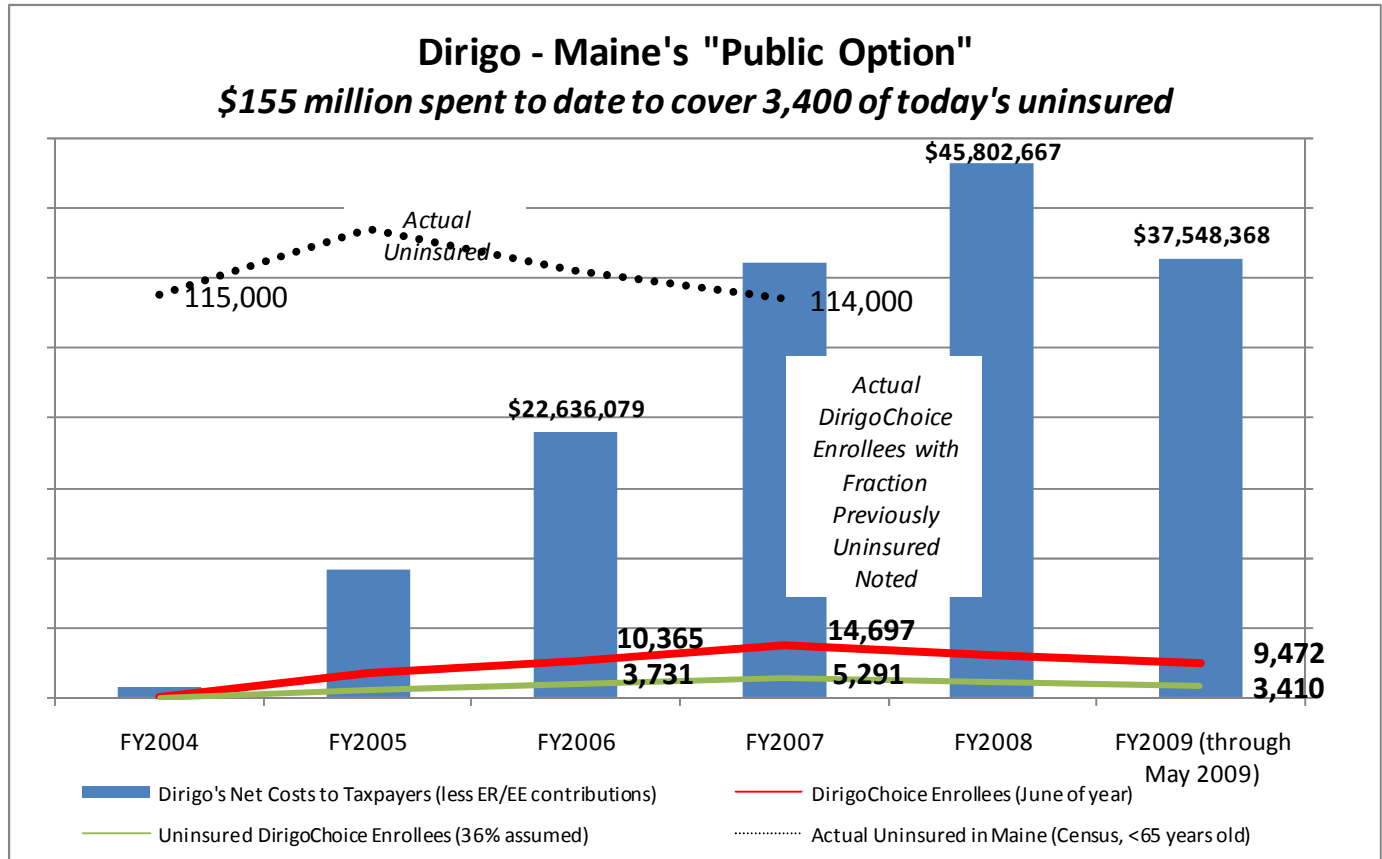
\$155 Million Spent to Date on a Program that Today Covers Only 3,400 Uninsured

By Tarren Bragdon

Passed in 2003, Maine’s Dirigo Health initiative was lauded as the first state-based universal coverage program this decade. Governor John Baldacci promised that Dirigo Health would (1) provide coverage for all of Maine’s 128,000 uninsured by 2009; (2) not require any new taxes; (3) be paid for by savings created in the health care system in Maine; and (4) reduce health insurance and health care costs for all.

The core element of the Dirigo Health initiative was the DirigoChoice “public option” insurance product – designed by state government, administered by a private insurer, subsidized by state tax dollars, and mainly marketed by state government to Maine small businesses and individuals. What has been the result?

- Dirigo Health has cost taxpayers \$155 million over five years in subsidies and administrative costs alone.
- Today, DirigoChoice covers just 3,400 uninsured (less than 3 percent of Maine’s uninsured population).
- Incredibly, the DirigoChoice premiums for sole proprietors and individuals have skyrocketed 74% in 4 years (4 times faster than the Maine State Employees health plan (17%) and 7 times faster than inflation (10%)).



Good Intentions, Little Debate. When Governor Baldacci took office in January 2003, his first executive order established the Governor’s Office of Health Policy and Finance (GOHPF). The mission of GOHPF was to “achieve affordable, quality universal access for all Maine citizens” and to propose legislation to accomplish this lofty mission.¹ On May 5, 2003 he formally introduced Dirigo Health Reform legislation. It was debated, voted on and signed into law just five weeks later on June 18, 2003.

Dirigo Health promised to 1) eliminate all Maine’s 128,000 uninsured by 2009; (2) not require any new taxes; (3) be paid for by savings created in the health care system in Maine; and (4) reduce health insurance and health care costs for all.

Medicaid Expansion and Public Plan. The core components of the Dirigo Health Reform were 1) a Medicaid expansion for parents with no disabilities earning between 150-200 percent of poverty (\$33,075 to \$44,100 a year for a family of four in 2009) and 2) the DirigoChoice subsidized “public” insurance plan.

Dirigo Choice was a state-designed insurance plan that was ultimately administered by the one private insurer bidding on the contract, Anthem. DirigoChoice is subsidized and its benefits are tiered based on family income. The deductible, maximum out of pocket limits and net premiums are higher for families with higher incomes.

Started with Federal Bailout Money. The seed money for Dirigo Health came from Maine’s \$53 million share of the \$10 billion federal temporary state fiscal relief funds that were part of the Jobs and Growth Tax Relief Reconciliation Act of 2003.³

“Savings” not Taxes. Dirigo was to be funded by savings it created in the health care system. These theoretical “savings” were calculated using a complicated and consultant-heavy process, then certified by Maine’s Superintendent of Insurance and finally assessed to insurance carriers and third party administrators through the cleverly named Savings Offset Payment (SOP). The SOP was not defined as a tax, keeping the “no taxes” and “paid for by savings created in the health care system” pledges of the Dirigo Health Reform. Over the last four years, the Dirigo SOP has amounted to approximately 2 percent of paid claims for all Maine people with health insurance. For small businesses and individuals, this SOP represents an additional 2 percent tax, over and above the 2 percent premium tax they already paid.

***In Their Own Words—
The Dirigo Promise***

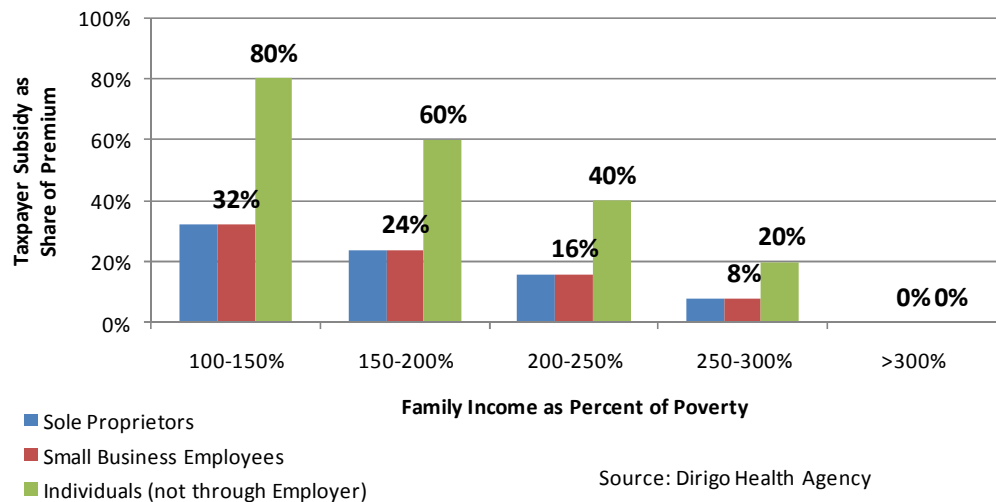
“In the first year of [the DirigoChoice] Plan operation, the Dirigo Health Agency aims to sign up 31,000 Maine residents who were previously uninsured. The majority of enrollees will be from small businesses. During the first year, enrollment of individuals and the self-employed (in groups of one) will be capped at 4,000 to be manageable and allow for a smooth start to the program. The goal is to provide affordable coverage for all of Maine’s uninsured, approximately 140,000, by 2009.”

2004 Dirigo Health Agency
Commissioned Report²

Subsidies Designed to Discourage Employer-Sponsored Coverage. The design of the DirigoChoice product and subsidy structure greatly encouraged individuals to directly buy into DirigoChoice but gave small employers little incentive to use

DirigoChoice for their employees. Small employers received no direct subsidy or incentive to start offering DirigoChoice, particularly if they did not previously offer employer-sponsored coverage. Indeed, often the decision makers in the small business would end up with the high net premium plan that also had the highest deductible and highest out-of-pocket limit.

Chart 2: DirigoChoice Taxpayer Subsidies by Income and Type of Enrollees



Subsidies for small businesses were targeted to the employee-share of the premium. Employers were required to pay 60 percent of employee-only premium but had no requirement for paying any share of dependent coverage. Employee subsidies are based on their share of the premium (40 percent for employee-only coverage). Sole proprietors are treated like small businesses (they are both the employer and the employee) with subsidies targeted to the 40 percent share of the premium. Individual subsidies, however, are based on the entire premium, with the logic that with individual coverage the “employee” share is 100 percent of the premium. This subsidy structure, as shown in Chart 2 on the previous page, provides huge economic incentives for individuals to enroll directly and no incentives for small businesses to start or maintain offering coverage to their employees. In fact, small businesses that dropped coverage and had their employees buy DirigoChoice directly would save thousands. Not surprisingly, at its peak enrollment in August 2007, DirigoChoice reached only 3,505 covered lives⁴ of small business employees and their dependents (just 23 percent of all DirigoChoice enrollees), about 3 percent of the entire small group market.⁵

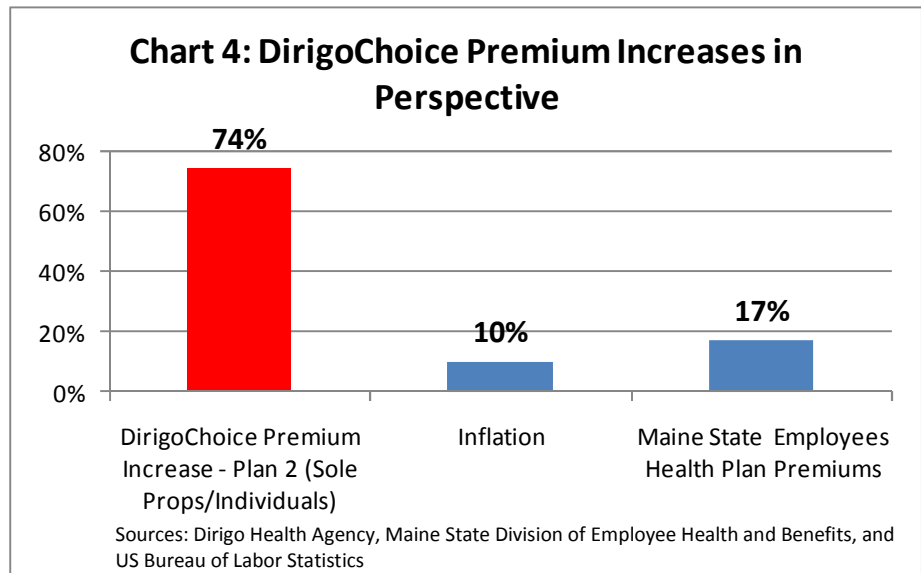
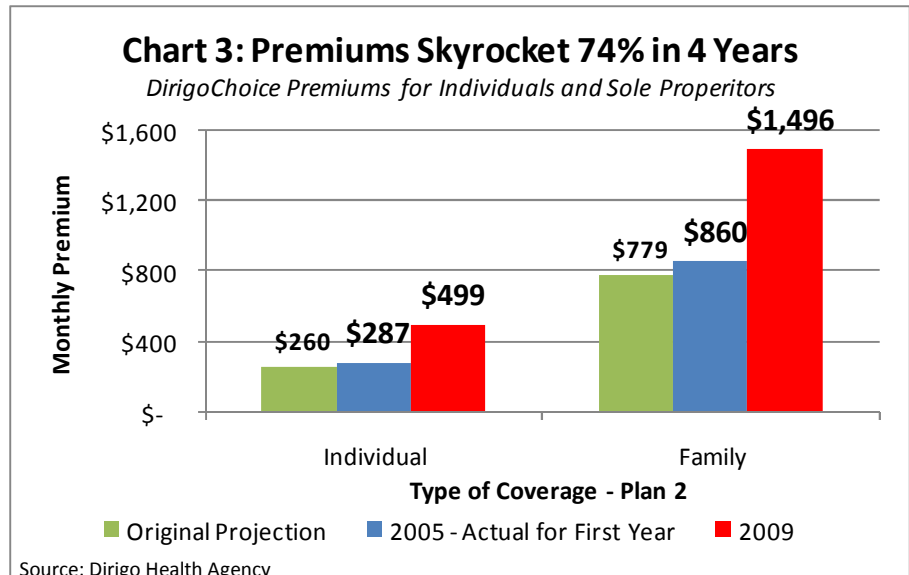
DirigoChoice Premiums Up 74 Percent in Four Years, 92 Percent Above Original Projections. The odd DirigoChoice subsidy structure coupled lower deductibles and lower out of pocket limits with higher premium subsidies, which meant the people paying the least for their DirigoChoice plan also had the smallest amount of cost sharing. This created an unsustainable utilization which lead to skyrocketing premium increases and the related subsidy costs paid by taxpayers. Premiums increased an astounding 74 percent in just four years - between the DirigoChoice product introduction in January 2005 and January 2009, as shown in Chart 3. Even more dramatic, premiums in 2009 for individuals and sole proprietors (the bulk of DirigoChoice enrollees) were 92 percent above original projections.⁶

Skyrocketing Costs Push Enrollment Cap. In response to these exploding costs, the Dirigo Health Agency was forced to cap enrollment to new small businesses and new subsidized individual and sole proprietors in September 2007. It has yet to be re-opened.

Premium Growth Four Times Faster than State Employee Health Premiums. DirigoChoice premiums rose four times faster than premiums in the State Employee Health Plan, which increased, by comparison, 17 percent over these same four years, and seven times faster than the 10 percent inflation during this same period, as shown in Chart 4.⁷

Increasing Subsidy Costs to Almost \$300 PMPM Overall. DirigoChoice per member per month (PMPM) subsidy costs have also increased 74 percent in four years, in proportion to the skyrocketing DirigoChoice premiums, to \$295 PMPM in fiscal year 2009 from \$170 in calendar year 2005, the first full year.⁸

\$513 PMPM for Individuals in Highest Subsidy Group. Given the subsidy structure, it seems surprising to no one except perhaps the Dirigo Health Agency that the largest enrollment category is for individuals in the highest subsidy category. In fact, current subsidies to individuals in Group B (80% subsidy) consume 79 percent of Dirigo Health



Agency subsidy spending. Individuals in Group B have taxpayer-financed subsidy costs of \$513 PMPM with lower but still expensive subsidy spending for Plan B sole proprietors (\$331 PMPM) and small business employees (\$273 PMPM).⁹

Very Costly to Maine Taxpayers—\$155 million and counting. Dirigo Health has cost Maine taxpayers almost \$155 million dollars to date, after taking into account revenue from employer and employee premium contributions. In administrative costs alone, the Dirigo Health Agency has spent \$16.8 million over six years for a program that today covers fewer than 3,400 previously uninsured Maine people.

Table 1: Dirigo Health Costs to Maine Taxpayers - FY2004 through FY2009

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009 (through May 2009)	Totals FY2004 - FY2009
Revenue from Employers & Employees (less subsidies)	\$0	\$5,168,878	\$20,394,865	\$28,764,570	\$31,851,369	\$23,064,440	\$109,244,122
Dirigo Health Agency Administrative Costs	\$820,777	\$2,221,223	\$4,331,529	\$3,441,252	\$3,467,306	\$ 2,530,909	\$16,812,996
Payments to Insurer	\$0	\$13,832,585	\$38,699,415	\$62,494,889	\$74,186,730	\$ 58,081,899	\$247,295,518
Net Costs (paid by Maine taxpayers)	(\$820,777)	(\$10,884,930)	(\$22,636,079)	(\$37,171,571)	(\$45,802,667)	(\$37,548,368)	(\$154,864,392)
Percent of Total Dirigo Health costs paid by Maine taxpayers	100%	67.8%	52.6%	56.4%	59.0%	61.9%	58.6%

Sources: Maine Legislature's Office of Fiscal and Program Review and the Dirigo Health Agency

Benefit Cuts. Although the Dirigo Health Agency kept deductible and maximum out of pocket limits steady over these same four years, benefits were cut. For example, DirigoChoice initially paid 80 percent of hospital and other medical expenses after the deductible in the early years, but by 2008 that had been reduced to 70 percent. To put this in perspective, consider someone who enrolled in the unsubsidized DirigoChoice Plan 2 and immediately was hospitalized. In 2005 this individual would need to have \$21,000 in medical costs before reaching the maximum out of pocket limit of \$5,600. In 2009, that figure was just \$14,583 to reach this same \$5,600 max out of pocket limit¹⁰ DirigoChoice Plan 2 enrollees would pay out of pocket for the 26 percent of costs in 2005 but 38 percent of the bill in 2008, before reaching the out of pocket limit.

Low Value, Low Medical Loss Ratio. Not only were DirigoChoice benefits reduced, but a smaller than average share of premiums are actually paid out for medical claims. For DirigoChoice, only \$0.72 of every \$1 in premiums are paid out in claims. For comparison, the State of Maine employees have a \$0.88 in paid claims for every \$1 of premiums.¹¹

Maine Voters Say Dirigo Health Not Worth 4 to 7 Cents Tax on a Beer, Wine or Soda. On April 15, 2008, the Maine Legislature passed a tax increase on beer, wine, soda and flavored water to fund the financially struggling Dirigo Health program. Business and community groups mounted a People's Veto citizen's petition and collected 90,000 signatures in 90 days to force a November vote on the issue. At the ballot box, 69% of Maine voters repealed the Dirigo Tax increase. Voters sent a clear message that that a tax that added 4 to 7 cents on beer, wine and soda was too high a price to pay for such a costly failure as the DirigoChoice public plan.¹²

Not reaching the Uninsured, DirigoChoice has 64% Rate of Crowd-Out. Unlike many public plans targeting the uninsured, DirigoChoice does not require that an individual be uninsured for any period of time or at all before enrolling. As a result, only about one in three (36 percent) of current DirigoChoice enrollees were actually uninsured when choosing this subsidized public plan. Thus, Dirigo had a crowd-out rate of 64 percent.¹³ This is consistent with the 60 percent crowd-out rate calculated for other public programs.¹⁴

Maine’s Uninsured Rate remained constant. Despite the numerous Medicaid expansions in Maine over the last decade and the creation of the highly publicized Dirigo Health program, Maine’s uninsured rate has remained relatively constant, as shown in Chart 5.¹⁵ Although some tout Maine’s flat uninsured rate as a success given the increasing uninsured rate nationally, when adjusted for race (Maine’s population is 95 percent white, the highest in the nation) this relatively flat uninsured rate mirrors the national trend for this similar population over the decade.¹⁶

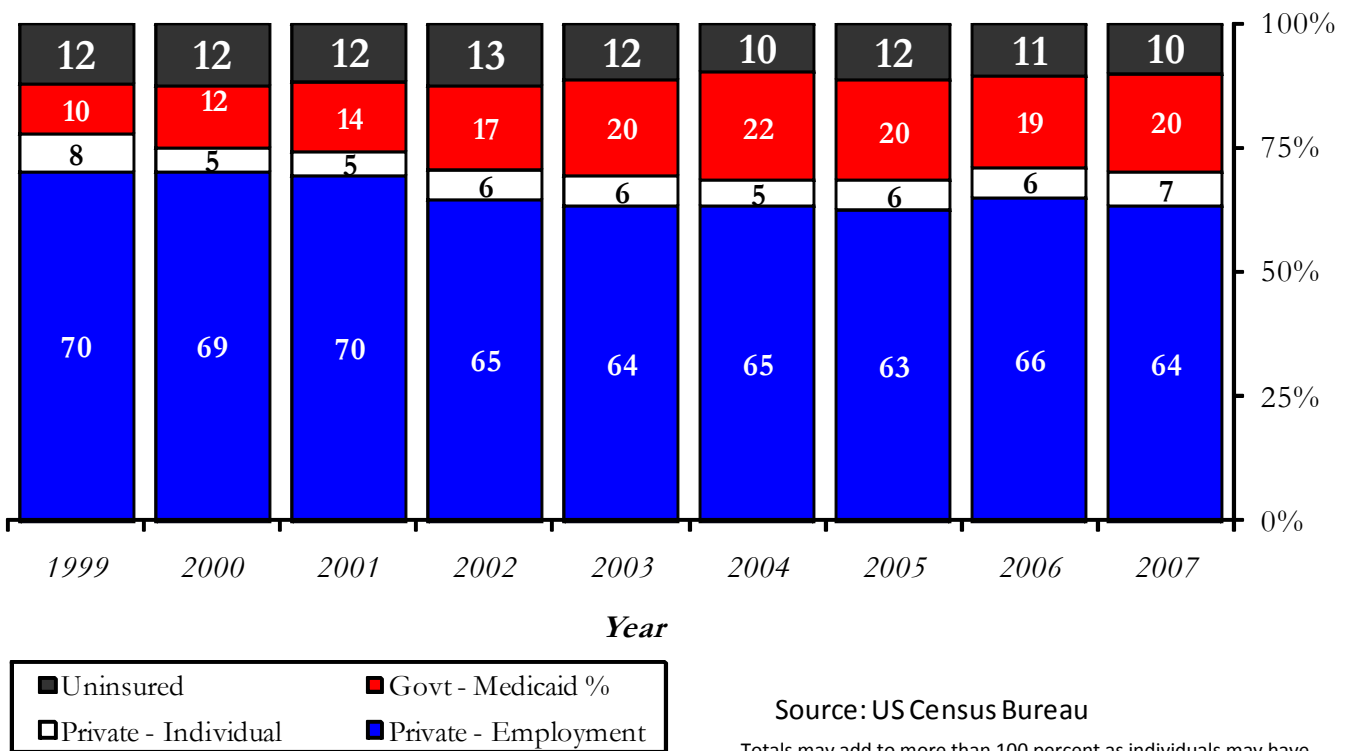
Dirigo Health is the best example of a what will happen with a “public” insurance option.

Rather than reducing the number of uninsured, the DirigoChoice public insurance option:

- Has skyrocketing premiums (up 74% in four years),
- Racked up huge costs for taxpayers (\$155 million to date),
- Reduced benefits for enrollees,
- Offers low-value benefits to cut costs (72% medical loss ratio),
- Has been closed to new enrollees for nearly two years,
- Had huge crowd-out as people shift to subsidized coverage (64% crowd out), and
- Covers just 3,400 of today’s previously uninsured.

During this federal health reform debate, Congress and President Obama must learn from the mistakes of the DirigoChoice public plan experiment and not replicate this costly failure nationwide.

Chart 5 : Steady Uninsured Despite Medicaid Expansions and Dirigo Health
Insurance Coverage for Mainers under 65 years old



Sources:

1. Baldacci, John. "Executive Order: An Order Establishing the Governor's Office of Health Policy and Finance." January 9, 2003. Available at: http://www.maine.gov/tools/whatsnew/index.php?topic=Gov_Executive_Orders&id=28890&v=Article
2. Rosenthal, Jill & Cynthia Pernice. "Dirigo Health Reform Act: Addressing Health Care Costs, Quality, and Access in Maine (Developed by NASHP for the Maine Governor's Office of Health Care Policy and Finance). National Academy for State Health Policy. June 2004. page 17. Available at: http://www.nashp.org/Files/GNL_56_Dirigo_brief.pdf
3. Silow-Carroll, Sharon and Tanya Alteras. "Stretching State Health Care Dollars: Building On Employer-Based Coverage." The Commonwealth Fund. October 2004. Page 28. Available at: http://www.commonwealthfund.org/usr_doc/781_Silow-Carroll_stretching_employer.pdf?section=4039
4. Dirigo Health Agency enrollment for August 2007. Available at: http://www.dirigohealth.com/Documents/Numbers_August07.pdf
5. "Market Snapshot - Small Group Health." Maine Bureau of Insurance. Statistics for 12/30/2007. Available at: http://www.maine.gov/pfr/insurance/employer/snapshot_small_group.htm
6. Dirigo Health Agency and Jill Rosenthal and Cynthia Pernice. Page 13.
7. Information from the State of Maine Division of Employee Health and Benefits. Provided by Frank Johnson, Executive Director, on March 18, 2009.
8. From the CY 2005 PMPM subsidy from page 27 of Dirigo Health Agency Annual Report for 2005 and 2006. Available at: <http://www.dirigohealth.com/Documents/2006%20Fact%20Book%20Final%20020607.pdf> and FY2009 PMPM subsidy from the May 2009 Dirigo Monthly Numbers, available at: http://www.dirigohealth.com/Documents/Numbers_May09.pdf
9. "Who Gets The Subsidy Today? And How Much Do They Get?" Dirigo Health Agency. June 19, 2009. Available at: <http://www.dirigohealth.com/Documents/who%20gets%20subsidy.pdf>
10. Based on plan benefit information from 2005 (Anthem) and 2009 (Harvard Pilgrim) as provided by the Dirigo Health Agency.
11. "DirigoChoice: Overview of Program." Dirigo Health Agency. May 18, 2009. Page 2. Available at: <http://www.dirigohealth.com/Documents/DC%20overview%20051809.pdf>
12. Quinn, Francis. "Maine people's veto 'air war' a one-sided affair." Associated Press. Seacoast Online. October 3, 2008. Available at: <http://www.seacoastonline.com/articles/20081003-NEWS-81003033>
13. "Dirigo Health Agency: Annual Report State Fiscal Year 2008." Dirigo Health Agency. 2009. Page 32. Available at: <http://www.dirigohealth.com/Documents/SFY%202008%20Annual%20Report%20012009.pdf>
14. Gruber, Jonathan and Kosali Simon. "Crowd-Out Ten Years Later: Have Recent Public Insurance Expansions Crowded Out Private Health Insurance?" National Bureau Economic Research. January 2007. Available at: <http://www.nber.org/papers/w12858>
15. "Table HI-6. Health Insurance Coverage Status and Type of Coverage by State--1999 to 2007." U.S. Census Bureau. Available at: <http://www.census.gov/hhes/www/hlthins/historic/hihist6.html>
16. "Table HIA-1. Health Insurance Coverage Status and Type of Coverage by Sex, Race and Hispanic Origin: 1999 to 2007." U.S. Census Bureau. Available at: <http://www.census.gov/hhes/www/hlthins/historic/hihist1.xls>

Tarren Bragdon is the chief executive officer of The Maine Heritage Policy Center. He may be reached at tbragdon@mainepolicy.org.

Crisis To Cure is a series of publications by The Maine Heritage Policy Center which focus on patient-centered reforms to America's health care system that will keep personal medical decisions between patients and their physicians - without government interference and intrusion. All information is from sources considered reliable, but may be subject to inaccuracies, omissions, and modifications.

The Maine Heritage Policy Center is a 501 (c) 3 nonprofit, nonpartisan research and educational organization based in Portland. The Maine Heritage Policy Center formulates and promotes free market, conservative public policies in the areas of economic growth, fiscal matters, health care, education, constitutional law and transparency – providing solutions that will benefit all the people of Maine. Contributions to MHPC are tax deductible to the extent allowed by law.

Editor and director of communications, Martin Sheehan, can be reached at msheehan@mainepolicy.org.

© 2009 The Maine Heritage Policy Center. Material from this document may be copied and distributed with proper citation.

P.O. Box 7829, Portland, ME 04112, Phone: 207.321.2550 Fax: 207.773.4385