

DIRIGO WATCH

The Maine Heritage Policy Center ♦ Volume 1, Issue 2, Spring 2004

Dirigo Health: Higher Costs, Reduced Benefits

❖ In this issue of DirigoWatch, you will learn:

- In just one year, the Dirigo Health Plan has become significantly more expensive for many employees with dramatically reduced benefits. (see page 2)
- Many individuals and families pay for extensive health insurance coverage they don't need or won't use. Note: Just 20% of insured households will consume more than \$2,000 in healthcare services in a given year. (see page 3)
- There are significantly less expensive health insurance plans already available in Maine, even for those individuals and families with significant healthcare costs. (see page 4)
- Rather than give all the premium dollars to the insurance companies, consumers could purchase cheaper health insurance, put some premium savings in a Health Savings Account, fund their actual healthcare costs, and then fund some of their retirement. (see page 5)
- Or, if consumers want to save even more money, they could buy health insurance outside of Maine and save thousands of dollars a year. (see page 6)

Dirigo Health/Care Works Plan

❖ Premiums and Benefit Package: How Dirigo Has Changed in Just One Year

ON THURSDAY, March 25, 2004, Governor Baldacci released the long-awaited benefit design and premium rates for the Dirigo Health plan, named Dirigo Health/Care Works, after a brief scuffle with an Ohio company with the Care Works trademark. The big mystery to date is how the proposed Dirigo Health products differ significantly from those already available to Maine small businesses.

On the following page is a chart highlighting the 2004 proposed benefit plan and the various proposed premiums. To show the evolution of the Dirigo Health Plan in less than a year, the first column shows the 2003 proposed benefit design and premiums. This 2003 plan was the basis of the debate when the Dirigo Plan was presented by the Governor and passed by the Legislature in June 2003.

FACT

*Only 20% of all insured US households will consume more than \$2,000 in healthcare per year.
Dirigo's Family Premium is \$10,300 a year with a \$2,500 deductible.*

And of course, until an insurance carrier responds to the final Dirigo Health Request for Proposal (released three months late on May 7th), the actual 2004 premium rates and benefit design will not be known.

Now, one year later, Dirigo Health has changed dramatically with higher employee costs and reduced employee benefits. The Dirigo Health Plan (Option 2) has double the deductibles with slightly lower premiums (\$262 for individuals and \$779 for families). For certain families with particular incomes, the State will subsidize their portion of the Dirigo Health premium and deductible. The effect of this sliding-scale, sliding-benefit structure on employers, employees, insurance brokers and tax payers will be discussed in the next DirigoWatch.

The Difference A Year Makes

	2003 Dirigo Health Plan	2004 Dirigo Health Plan (Option 1)	Employee costs between 2003 and 2004 Plans % chg (\$ chg)
Premium (<i>Monthly</i>)			
Single	\$300	\$282	-6% (\$18 lower)
Family	\$785	\$846	+8% (\$61 higher)
Deductible (<i>Annual</i>)			
Single	\$250	\$1250	+400% (\$1,000 higher)
Family	\$500	\$2500	+400% (\$2,000 higher)
Max Out-of-Pocket			
Single	\$1,250	\$4,000	+220% (\$2,750 higher)
Family	\$2,500	\$8,000	+220% (\$5,500 higher)
Maximum Employee Portion of Premium			
Single	\$120/month (\$1,440/yr)	\$112/month (\$1,354/yr)	-7% (\$8/month or 96/year lower)
Family	\$314/month (\$3,768/yr)	\$676/month (\$8,112/yr)	+115% (\$362/month or \$4,344/year higher)
Coinurance and Copays			
Physician	\$10 copay	\$15	+50% (\$5 higher)
Specialist	\$20 copay	\$25	+25% (\$5 higher)
Hospital (<i>after deductible</i>)	inpatient (\$50/day, max \$300) outpatient (20% coins.)	20% coins. (inpatient and outpatient)	<i>Same for outpatient, although no out-of-pocket max for inpatient (as in 2003 plan)</i>

❖ Annual Healthcare Consumption by Household: What Most People Don't Realize

BEFORE analyzing the proposed Dirigo Health Plan benefit structure and premium, it is important to look at average healthcare spending by household. Many people focus closely on health insurance premiums and deductibles, but do not consider actual healthcare expenditures.

Below are the healthcare expenditures (regardless of payor—self pay, insurance or other) by household for those living in the Northeast United States who had private health insurance all year. These numbers are reported by the federal Agency for Healthcare Research and Quality. Remember, this is not how much a household spends out of pocket; this is how much total healthcare insured households consume, regardless of who is paying the bill.

Given the table below, it is evident that the majority of individuals and families will not consume more than their Dirigo Health deductible amount.

Table 1. Annual Healthcare Consumption by Insured US Households in the Northeast

Annual Healthcare Consumption	Household Size (includes total number of adults and children) & Percent Chance Household will Consume More Healthcare in a Given Year		Average for all Households
	One person	Three or more	
\$0	84%	86%	87%
\$1 - \$250	64%	67%	68%
\$250- \$500	54%	51%	53%
\$500 - \$750	47%	39%	42%
\$750 - \$1,250	34%	27%	29%
\$1,250 - \$1,750	25%	20%	22%
\$1,750 - \$2,500	21%	15%	17%
\$2,500 - \$3,500	13%	12%	13%
\$3,500 - \$5,000	7%	8%	8%
\$5,000 - \$7,500	4%	4%	5%
\$7,500 - \$10,000	1%	3%	3%
\$10,000 or more	<1%	<3%	<3%

IMPORTANT!

How to Read this Table:

The percent in the right three columns refers to the portion of all households of that size that have a chance of consuming more healthcare in a given year. (Therefore, from the chart, 80% of all insured families with three or more people will consume \$1,750 or less in healthcare in 2004 or, another way, only 20% of households will consume more healthcare.)

(Northeast US, all figures in 2004 dollars based on latest figures available (2000) projected to 2004 by assuming 8% annual growth.¹ Shown for households where the oldest member under 45 years old, which constitutes almost 78% of all uninsured Mainers.²)

❖ Prepaid Healthcare or Just-in-Time Health Purchasing – Comparing Dirigo to Other Maine Health Insurance Plans

CONSIDER how Dirigo Health (or any other insurance plan with a similar benefit package) compares to a high deductible plan for various levels of healthcare consumption. For this comparison the coinsurance on the Dirigo Plan is assumed to be a fixed 20% (the coinsurance level for hospital care). The high deductible plan in table #2 is Anthem's HealthChoice individual insurance plan with a \$5,000 deductible for individuals and a \$10,000 deductible for families (100% of services covered by insurer, including prescriptions, beyond deductible, from Anthem.com). Then, in table #3, consider the same comparison for a family (employee, spouse and child(ren) all on plan). For the employer, 60% of the premium for the employee-only Dirigo Plan is \$356 a year more than 100% of the employee-only HealthChoice plan.

Table 2. Employee Only Coverage

Healthcare Consumed by Employee (annual)	% Chance Employee Will Consume More Healthcare (see Table 1)	Employee's Out-of-Pocket Spending	Savings/(Cost) of HealthChoice vs. Dirigo
		Dirigo Plan Option I	\$
\$0	84%	\$1,354 ³	\$1,354
\$250	64%	\$1,604	\$1,354
\$500	54%	\$1,854	\$1,354
\$750	47%	\$2,104	\$1,354
\$1,000	38%	\$2,354	\$1,354
\$1,250	34%	\$2,604	\$1,354
\$1,750	25%	\$2,704	\$954
\$2,500	21%	\$2,854 <i>Deductible met</i>	\$354
\$3,500	13%	\$3,054	(\$446)
\$5,000	7%	\$3,354	(\$1,646)
\$7,500	4%	\$3,854	(\$1,146)
\$10,000	1%	\$4,354	(\$646)
\$15,000	<1%	\$5,354	\$354

(under 40 years old with employee only coverage)

Table 3. Family Coverage

Healthcare Consumed by Family (annual)	% Chance Family Will Consume More Healthcare (see Table 1)	Family's Out-of-Pocket Spending	Savings/(Cost) of HealthChoice vs. Dirigo
		Dirigo Plan Option I	\$
\$0	86%	\$8,122 ⁴	\$3,694
\$250	67%	\$8,372	\$3,694
\$500	51%	\$8,622	\$3,694
\$750	39%	\$8,872	\$3,694
\$1,000	32%	\$9,122	\$3,694
\$1,250	27%	\$9,372	\$3,694
\$1,750	20%	\$9,872	\$3,694
\$2,500	15%	\$10,622 <i>Deductible met</i>	\$3,694
\$3,500	12%	\$10,822	\$2,894
\$5,000	8%	\$11,122	\$1,694
\$7,500	4%	\$11,622	(\$306)
\$10,000	3%	\$12,122	(\$2,306)
\$15,000	<3%	\$13,122	(\$1,306)

(Under 40 years old with family coverage, employer pays 60% of employee-only premium and 0% of dependents' portion, minimum allowed by Dirigo)

Table 2: Dirigo Plan—Option 1 with \$1,250 deductible and \$4,000 OOP max; HealthChoice with \$5,000 deductible with \$5,000 OOP max, beyond deductible 100% of healthcare covered. Employee spending for \$0 of healthcare consumption includes just that employee's share of the premium.) Table 3: Dirigo Plan—Option 1 with \$2,500 deductible and \$8,000 OOP max; HealthChoice with \$10,000 deductible with \$10,000 OOP max, beyond deductible 100% of healthcare covered. Family spending for \$0 of healthcare consumption includes just that employee's share of the premium.

Who Wins and Who Loses?

Minimum and maximum employee costs

\$16,122	
\$8,000 <i>max-out-of-pocket</i>	\$14,428
\$8,122 <i>employee's premium</i>	\$10,000 <i>max-out-of-pocket</i>
DirigoHealth Family coverage	\$4,428 <i>employee's premium</i>
	HealthChoice Family coverage

FACT

87% of employees with employee-only coverage and an astounding 96% of employees with family coverage would save money (up to \$1,354 or \$3,694 per year, respectively) by having Anthem's HealthChoice over Dirigo Health—Option I

So, what is your chance of falling somewhere in the middle? See table 3.

Health Savings Accounts

❖ Employees Save Money on Health Insurance, Build Wealth, and Reduce Taxes (except in Maine?)

HSAs are proven to help the uninsured

In 2001, 73% of those signing up for HSAs (then called Archer MSAs) had been uninsured for six months or more, according to the IRS.

Why? Because the uninsured often can't afford the traditional health insurance premium. High deductible plans have very low premiums, as shown previously and often much lower out-of-pocket costs, even for a high level of healthcare consumption.

PRESIDENT Bush and Congress, as part of the Medicare prescription drug benefit passed in 2003, created a new type tax-free account for health spending called Health Savings Accounts. Individuals with health insurance plans with deductibles of \$1,000 to \$5,000 per year or (\$2,000 to \$10,000 per year for families) can put away up to \$2,600 (\$5,150 for families) in Health Savings Accounts (HSA) in 2004. Contributions are tax-free when made and grow tax-deferred the way contributions do in a traditional tax-deferred Individual Retirement Account.

Unlike a traditional IRA, HSA withdrawals are tax-free, too, if the money pays for qualified medical expenses: doctor visits, prescription drugs, hospital costs, vision and dental exams and the like. The law also allows tax-free withdrawals for long-term-care premiums or COBRA insurance premiums, which lets an individual buy temporary coverage from his former employer if he loses his job.

Withdraw the money for a nonmedical expense and that individual will owe income tax plus a 10 percent penalty if he is younger than 65.⁵

The Baldacci Administration and majority Democrats on the Joint Standing Committee on Taxation proposed not allowing Mainers to deduct HSA contributions. Is that the way life ought to be? At press time, this legislation (LD 1651) was not acted upon by the Maine legislature.

According to the website HSAinsider.com, Aetna offers HSA health insurance plans in Maine with Anthem beginning on September 1, 2004 and CIGNA beginning on January 1, 2005.

How much could it cost to have \$1.00 in an HSA account?

**\$1.085 Maine
\$1.00 Other 49 states**

Why? Because Governor Baldacci proposed (LD 1651) to not allow Mainers to deduct HSA contributions from Maine taxable income by conforming to this federal tax law change. The reason given was this deduction would result in an estimated \$500,000 in reduced state tax revenue (or about 1% of the \$53 million budget for Dirigo for FY2005).

Now, will Dirigo Health enrollees have to pay Maine taxes on their HSA contributions?

❖ Want to Save Even More Money on Health Insurance Premiums?

**Buy Your Insurance in New Hampshire, Connecticut, Colorado, Kentucky ...
These States Don't Have Dirigo Health!**

SOMETIMES it is easy to think that Maine residents are experiencing the same challenges as another state's residents. However, this is not the case. In fact, residents in other states can buy dramatically cheaper individual health insurance. This is largely due to how Maine regulates health insurance in the individual market. The individual market is the market of last resort for employees not offered or not able to afford health insurance through their employers. It is also the market where self-employed people purchase health insurance. Self-employed persons make up 28% of Maine's uninsured.⁶ Those individual insurance regulations that raise costs in Maine will be discussed in more detail in a future DirigoWatch. Want to see for yourself the difference living outside of Maine makes? Go to anthem.com and look at health insurance rates. Rather than entering a Maine zip code and county, try another state's zip code. The premium difference among states are highlighted on the next page.

QUESTION:
If Mainers can buy cheaper prescription drugs in Canada, shouldn't they be allowed to buy cheaper health insurance from New Hampshire or Kentucky?

the far right in the following table shows Maine's hospital costs compared to other states.

Other states have more expensive hospital services but cheaper individual health insurance. Maybe Maine should fix its individual insurance market regulations rather than focus so much energy on controlling healthcare costs.

Now, many will explain away these dramatic premium differences by saying healthcare in Maine is so much more expensive, in particular hospital care. However, the shaded column to

❖ Examine the Reality:

It Matters Where You Call Home; Premium Differences by State

State	Monthly Premium for Male, living in state's capital ⁷				Hospital Adjusted Expenses per Inpatient Day ⁸
	25 year old	35 year old	45 year old	50 year old	
Maine	\$397	\$397	\$496	\$496	\$1,169
Kentucky	\$64	\$74	\$124	\$160	\$1,029
New Hampshire	\$101	\$126	\$231	\$277	\$1,218
Connecticut	\$149	\$196	\$277	\$354	\$1,406
Colorado	\$85	\$110	\$157	\$182	\$1,363
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Annual Differences Maine vs. Kentucky	\$3,990	\$3,877	\$4,468	\$4,028	
% savings of buying a kentucky plan	84%	81%	75%	68%	

❖ In Conclusion

- In just one year, the Dirigo Health Plan has become significantly more expensive for many employees with dramatically reduced benefits.
- Many individuals and families pay for extensive health insurance coverage they don't need or won't use. Note: Just 20% of insured households will consume more than \$2,000 in healthcare services in a given year.
- There are significantly less expensive health insurance plans already available in Maine, even for those individuals and families with significant healthcare costs.
- Rather than give all the premium dollars to the insurance companies, consumers could purchase cheaper health insurance, put some premium savings in a Health Savings Account, fund their actual healthcare costs, and then fund some of their retirement.
- Or, if consumers want to save even more money, they could buy health insurance outside of Maine and save thousands of dollars a year.

❖ EndNotes

1. Household Component Analytical Tool (MEPSnet/HC). August 2003. Agency for Healthcare Research and Quality, Rockville, MD. www.meps.ahrq.gov/mepsnet/HC/MEPSnetHC.asp (2000 figures projected to 2004 assuming 8% annual growth.)
2. Health Insurance Coverage Among Maine Residents: Results of a Household Survey 2002. May 2003. Institute for Health Policy, Edmund S. Muskie School of Public Service, University of Southern Maine with funding from The State Planning Grant Program HRSA Office of Special Projects U.S. Department of Health and Human Services. muskie.usm.maine.edu/Publications/hpi/HealthInsuranceCoverageMaine2003.pdf
3. Employee portion of premium. Since HealthChoice is cheaper than 60% of Dirigo – Option I, it is assumed the employer would pay 100% of the HealthChoice premium.
4. Employee portion of premium – 60% of employee only premium for Dirigo Plan (\$2,030 paid by employer) and 100% of employee only premium for HealthChoice (\$1,674 paid by employer). If true comparison, then \$2,030 would be paid by the employer for both plans. To calculate that, simply reduce all amounts in the HealthChoice column by \$356.) Since HealthChoice is cheaper than 60% of Dirigo – Option I, it is assumed the employer would pay 100% of the individual HealthChoice premium.

Each quarter DirigoWatch is distributed to over 11,000 individuals and businesses including:

- **Maine State Legislators**
- **Legislators with health policy interests from other states**
- **Federal DHHS officials**
- **Maine Governor's office and key staff**
- **Maine health policy interested parties**
- **State and national media**
- **Maine small and large business executives**
- **NCSL, CSG and ALEC health committees**
- **MHPC member and mailing list**
- **Other state and national think tanks**
- **Insurers and healthcare providers**
- **Consumer groups**
- **Legislative staff (partisan and non-partisan)**

5. www.HSAinsider.com/qa.asp
6. **Health Insurance Coverage Among Maine Residents**, page 19.
7. Premiums from Anthem.com for as comparable policies as possible (ME – HealthChoice Standard, \$1,500 deduct, 20% coins, \$1,000 OOP max; KY— Blue Access, \$1,000 deduct, 20% coins, No OOP max; NH – Blue Direct Preferred, \$1,500 deduct, 20% coins; \$3,000 OOP max; CT— Blue Care Plus Direct, \$1,500 deduct, 0% coins, \$2,000 limit Rx; and CO— Blue Direct Preferred, \$2,000, 20% coins, \$1,000 OOP max).
8. **StateHealthFacts**, Kaiser Family Foundation. www.StateHealthFacts.KFF.org 2001 AHA Annual Survey. Copyright 2003 by Health Forum LLC, an affiliate of the American Hospital Association, available at www.ahaonline.store.com/ProductDisplay.asp?ProductID=637&cartID=173831

DirigoWatch is a quarterly publication of the Maine Heritage Policy Center (MHPC) providing research, updates and commentary on Maine Governor John Baldacci's Dirigo Health initiative. MHPC is a nonprofit and non-partisan research and educational organization whose mission is to formulate and promote conservative public policies based on the principles of free enterprise, limited, constitutional government and individual freedom. Nothing in this document should be construed as an attempt to aid or hinder the passage of any legislation. This document may be copied and distributed with proper citation. The opinions expressed in DirigoWatch are the author's and not necessarily those of the Maine Heritage Policy Center.



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