



State Fiscal Note for Bill Number: 2018-H-7829

Date of State Budget Office Approval:

Date Requested: Monday, March 12, 2018

Date Due: Thursday, March 22, 2018

<i>Impact on Expenditures</i>		<i>Impact on Revenues</i>	
FY 2018	N/A	FY 2018	N/A
FY 2019	\$244,293,777	FY 2019	\$0
FY 2020	[\$257,740,198]	FY 2020	\$0

**Explanation by State
Budget Office:**

This bill sets forth a new Chapter 27-82 of the General Laws entitled "Primary Care Trust Act", requiring that the Office of the Health Insurance Commissioner (OHIC) impose a 10.7 percent "primary care trust assessment" on all projected medical expenditures incurred by health insurers doing business in Rhode Island. As defined in the bill, "insurers" includes standard health insurance companies, HMO's, nonprofit hospital and medical service corporations, the state's Medical Assistance (Medicaid) program, the state's employer-sponsored (self-insured) health insurance plan administered for the benefit of state employees, the federal Medicare program, and any other publicly financed health care benefit plan. Proceeds from this assessment will constitute a "healthcare services funding contribution" under RIGL 42-7.4, "The Healthcare Services Funding Plan Act", which currently governs the collection of payments from subject insurers to finance the Childhood and Adult Immunization Accounts within the Department of Health and the Children's Health Account within the Executive Office of Health and Human Services.

The stated purpose of the assessment is to directly finance a new system of "Primary Care Trusts", defined as nonprofit organizations whose charge is to offer primary and essential healthcare services within a particular region of the state through a network of contracted primary care providers. Primary Care Trusts will in turn reimburse these providers on a "per capita" basis, in order to incentivize the provision of essential health services to a greater proportion of the region's population. As directed under this bill, Primary Care Trusts will be governed by a board of directors and will be required to develop a "Community Health Plan" detailing the methods and programs through which the Trust will provide primary care services to all residents of the Trust's geographic "health district", improve key health indicators within the population, and improve/maintain the overall health of the region's residents.

The bill places primary administrative and oversight responsibility for the "Primary Care Trust Program" under the Office of the Health Insurance Commissioner (OHIC), a special division of the Rhode Island Department of Business Regulation (DBR). OHIC's activities include the promulgation of associated rules and regulations, and the re-designation of a nonprofit to serve as a region's Primary Care Trust in the event that a previously designated nonprofit fails to sufficiently implement a Community Health Plan. OHIC is also responsible for the administration and the apportionment of the Primary Care Trust assessment proceeds among participating nonprofits (i.e. "Trusts"), presumably in accordance with RIGL

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42-7.4. It is important to note, however, that while OHIC directs the allocation of this revenue stream (via an annual “allocation order”) and maintains jurisdiction over the insurers “for purposes of imposing the primary trust fund assessment”, it does not actually collect these funds nor serve as their intermediate fiduciary. Rather, insurers subject to the assessment directly remit payments to each Primary Care Trust, as directed by OHIC.

There are various technical bill drafting issues, the most significant of which is the inclusion of the assessment as a “healthcare services funding contribution” per RIGL 42-7.4, while the bill itself does not include any language directly amending this Chapter.

*Comments on
Sources of Funds:*

Although both the Medical Assistance (Medicaid) Program and the State employees’ (self-insured) employer-sponsored health plan are partially financed via federal and other non-general revenue sources, this fiscal note reports the projected fiscal impact solely on an all-funds basis. This assumption is driven primarily by the significant degree of uncertainty in obtaining Federal Financial Participation (FFP) for the (primary care trust) assessments charged to both the Medical Assistance program and the federal grants currently supporting state personnel expenditures. This is particularly relevant for the incipient years of the Primary Care Trust Program, wherein the provision of primary care services to all state residents through the Trust program and its contracted providers is likely not feasible.

*Summary of Facts
and Assumptions:*

1. Enactment of this bill is not assumed prior to July 1, 2018. Thus, zero fiscal impact is reported for FY 2018.

2. As OHIC does not directly collect the proceeds of the assessment (i.e. the bill does not prescribe any state-administered restricted receipt account or special revenue fund), there are three avenues through which the primary care trust assessment directly impacts state expenditures and appropriation requirements: (a) Assessments on medical spending incurred by the state’s self-insured, employer-sponsored health plan; (b) Assessments on medical spending incurred by the state’s Medical Assistance (Medicaid) Program; (c) Administrative expenses for 8.0 new FTE positions at the Office of the Health Insurance Commissioner required to administer the program. The all-funds impact of each is calculated as follows:

(a) FY 2017 actual medical expenditures incurred by the state’s Health Insurance Fund (Fund 57) for medical claims (including pharmaceuticals) totaled \$218,214,975. Utilizing growth rates assumed in the Budget Office’s FY 2018 and FY 2019 weighted average planning values for state employee medical coverage of 3.61 percent and 4.18 percent, respectively, yields FY 2019 projected base medical expenditures of \$235,543,204. FY 2020 growth is assumed equivalent to the 2-year average of FY 2018 and FY 2019, or 3.9 percent, yielding FY 2020 projected medical spending of \$244,717,612. At 10.7 percent in each year, total assessments are therefore \$25,203,123 in FY 2019 and \$26,184,784 in FY 2020.

(b) The State’s Medical Assistance (Medicaid) program is subdivided into two main segments: Fee-for-Service (FFS or “Traditional” Medicaid) and Medicaid Managed Care programs, administered via Managed Care Organizations (MCOs). For both, this note utilizes the testimony of the of the Executive Office of Health and Human

Services delivered at the May 2018 Public Assistance and Caseload Estimating Conference as it pertains to FY 2019.

With respect to capitated programs within the Managed Care segment of Medical Assistance, anticipated premium payments (i.e. capitation) to health plans, less allowances for MCO administration, margin, taxes, and fees, but including maternity “kick” payments under SOBRA, NICU expenses, and other fee-for-service managed care payments, are utilized as a proxy for projected medical expenses. These amounts are as follows:

FY 2019 Medicaid Managed Care (Proxy): \$1,698,949,721

FY 2020 Medicaid Managed Care (Proxy): \$1,802,585,654 (assumes annual composite growth of 6.1 percent, per FY 2019 CEC managed care testimony).

With respect to fee-for-service Medical Assistance, the three major components are Hospital services, Long-Term Care (Nursing Facilities and Home and Community Based Services, with the exception of the “PACE” program), and certain components of “Other” Medical Services. These amounts are estimated as follows:

FY 2019: \$338,346,112

FY 2020: \$351,203,264 (assumes annual composite growth of 3.8 percent)

The sum of projected MCO-based and FFS medical expenditures are therefore \$2,037,295,833 and \$2,153,788,918 in FY 2019 and FY 2020, respectively. At 10.7 percent in each year, total assessments are therefore \$217,990,654 in FY 2019 and \$230,455,414 in FY 2020.

(c) The Budget Office estimates the annualized expense of 8.0 new FTE positions at OHIC to be approximately \$1.1 million in general revenue in both FY 2019 and FY 2020, based on the Office’s current average cost per FTE. Clearly, this will vary depending upon the specific position titles and pay grades ultimately chosen by the Office.

3. Combining the fiscal impacts detailed in 2(a) and 2(b) above yields total trust assessments of \$243,193,777 in FY 2019 and \$256,640,198 in FY 2020. Adding projected OHIC administrative expenses in 2(c) to these figures yields a total fiscal impact of \$244,293,777 in FY 2019 and \$257,740,198 in FY 2020.

4. The FY 2020 fiscal impact is bracketed due to the assumption that as the Primary Care Trust Program fully phases-in over the course of FY 2019, the state may begin to experience significant savings in primary care and essential health services commencing in FY 2020, both within the Medicaid program and the employer-sponsored health insurance plan. While the magnitude of these savings are inestimable at this time, they are likely to reduce the state’s overall medical spending, thereby reducing the state’s assessment liability.

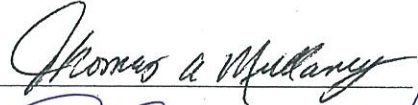
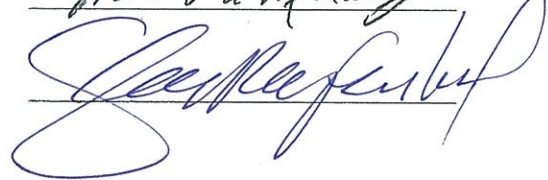
5. Note: The fiscal impact as reported herein represents a simplification of the actual assessment process. As this assessment is subject to the provisions of RIGL 42-7.4, the actual assessed amounts for each subject health insurer are likely to deviate from the 10.7 percent overall assessment prescribed in the bill, since a “healthcare services funding contribution” is assessed on a per capita “contribution enrollee” basis.



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Summary of Fiscal Impact:
FY 2018: N/A
FY 2019: \$244,293,777
FY 2020: \$257,740,198

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