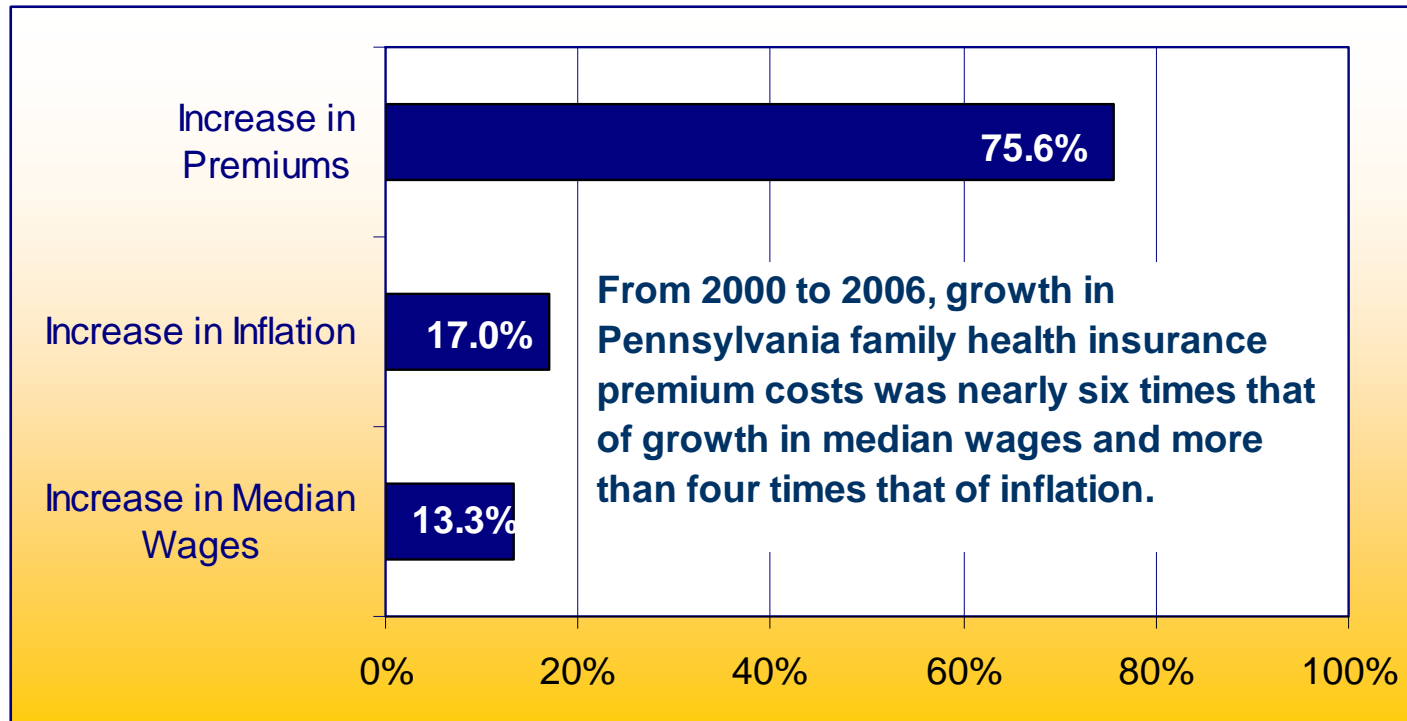


Prescription for Pennsylvania

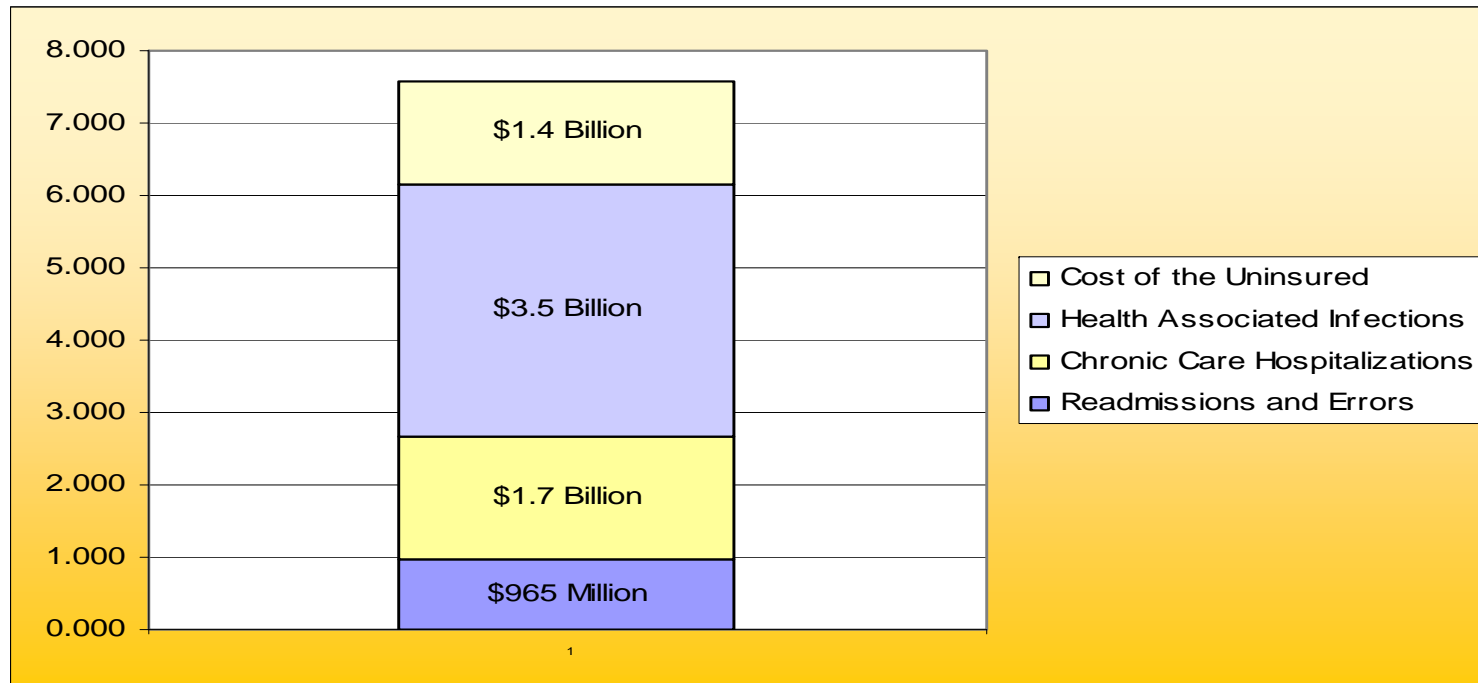
2008-2009 Budget Overview



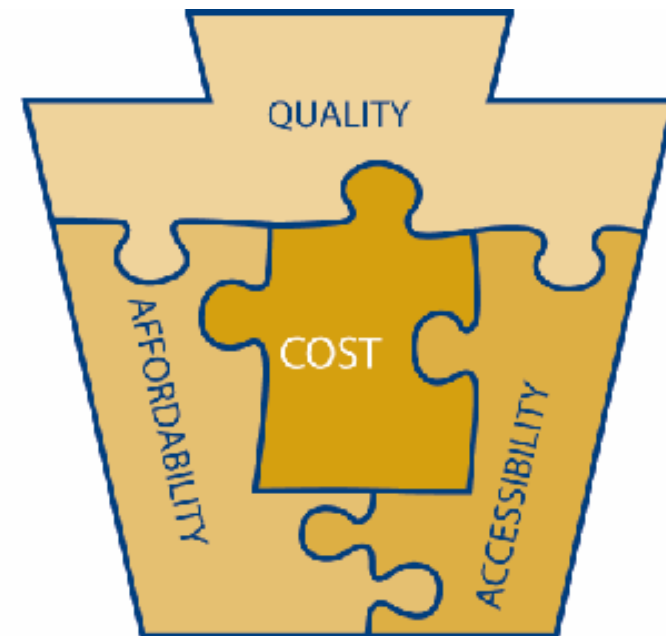
- ✦ Pennsylvania businesses suffer a competitive disadvantage in the global marketplace against companies from countries where health care costs less and is universally available.
- ✦ Pennsylvania spends 11 percent more per person on health care than the U.S. average, and our health care costs are increasing twice as fast as average wages.

Prescription for Pennsylvania: The Cost of Inaction

- ✦ Pennsylvania's businesses, consumers and taxpayers pay at least \$7.6 billion a year for unnecessary and avoidable health care costs.
- ✦ Inaction would not only continue these unnecessary and avoidable costs, it would jeopardize the health and safety of our residents and perhaps even weaken the commonwealth's economic competitiveness.



- Prescription for Pennsylvania will increase access to affordable health care coverage for all Pennsylvanians.
- Prescription for Pennsylvania will improve the quality of care delivered throughout the commonwealth.
- Prescription for Pennsylvania will help bring health care costs under control for employers and employees.



Prescription for Pennsylvania Will Reduce Health Insurance Costs

- ✚ Putting all Prescription for Pennsylvania initiatives in place, including small group and individual insurance reforms will:
 - lower average insurance cost over the next several years by nearly 25 percent; and
 - slow the erosion of employer-sponsored insurance and make insurance rates more affordable and predictable for both employers and consumers.

- ✚ Consumers could realize a \$2,000 savings on a \$9000 policy.

Rx for Affordability	Rx for Access	Rx for Quality
Cover All Pennsylvanians	Health Care Workforce	Health Associated Infections
Coverage for College Students and Young Adults	Removing Practice Barriers	Quality Outcomes
Community Benefit Requirements	•CRNP's	Technology
Uniform Admission Criteria	•Physician Assistants	Pay for Performance
Fair Billing and Collection Practices	•Nurse Midwives	Chronic Care
Capital Expenditures	•CRNAs	Health Disparities
Small Group Insurance Reform	•Pharmacists	Child and Adult Wellness
Transparency of Cost and Quality Data	Cost-Effective Sites	Long Term Living
	Co-Occurring Disorders	End of Life and Palliative Care

Where Do We Stand?

🏆 **Cover All Pennsylvanians**

Legislation has been introduced in both houses (HB 1870 & SB 1117). Meetings with the Center for Medicare and Medicaid Programs (CMS) to obtain federal matching funds are ongoing.

🏆 **Coverage for College Students and Young Adults**

Legislation has been introduced in the House (HB 1556 & HB 2005).

🏆 **Community Benefit Requirements**

Draft regulations are being prepared.

🏆 **Uniform Admission Criteria**

Draft regulations are being prepared.

🏆 **Fair Billing and Collection Practices**

Draft regulations are being prepared.

🏆 **Capital Expenditures**

A draft Executive Order has been prepared.

🏆 **Small Group Insurance Reform**

Legislation has been introduced in the House (HB 2005).

🏆 **Transparency of Cost and Quality Data**

A website with prices for the 200 most commonly prescribed drugs available in PA pharmacies is in the final stage of development, and will go “live” this spring.

Where Do We Stand?

👉 Health Care Workforce

- The PA Center for Health Care Careers has elevated awareness and worked to address critical shortages in health care occupations, including direct care workers.
- The nursing grants program implemented in the 2006-07 year has increased admissions to nursing schools by 50% statewide.

👉 Removing Practice Barriers

- Scope of practice bills for CRNPs, nurse midwives and dental hygienists have been enacted.
- Scope of practice legislation for pharmacists, physical therapists, nurse anesthetists and physician assistants has been introduced in the House (HB 1250 thru HB 1257).

👉 Cost-Effective Sites

- Draft regulations have been prepared to require that hospitals have cost effective primary care available for those presenting at hospital emergency rooms who do not need emergency room care.
- Three grants have been awarded to date, for a health center and mobile clinics in 4 counties.
- A second RFP has been issued with expanded criteria to reach more underserved communities.

👉 Co-Occurring Disorders

DPW and DOH are jointly credentialing mental health and substance abuse treatment providers who treat patients with co-occurring disorders.

Where Do We Stand?

👉 Health Associated Infections (HAI)

- Legislation to require infection prevention procedures and reporting of health associated infections by hospitals has been enacted.
- 1,211 hospital infection control plans and all 249 hospital assessments have been received.

👉 Technology

An Executive Order is being drafted to create the Pennsylvania Health Information Exchange (PHIX), a platform to share patient health care information. PHIX will be the statewide framework necessary to implement such initiatives as e-Prescribing and Electronic Medical Records.

👉 Pay for Performance

- DPW has implemented performance based contracting features in both Health Choices and ACCESS Plus contracts for primary care providers. ACCESS Plus has already shown cost savings and better outcomes for patients with chronic diseases.
- Some Medical Assistance hospital disproportionate share (DHS) funding has been used to reward quality-related activities for hospitals since 2006, and there are enhancements to this initiative in progress.
- A \$2 million grant program is set up for hospitals for quality-related projects.

👉 Chronic Care

The Chronic Care Management, Reimbursement and Cost Reduction Commission presented the Governor and the legislative leadership with a Strategic Plan in February, 2008 to improve the delivery of health care to Pennsylvanians who require chronic care. Regional rollouts will start in May, with statewide rollout by September.

Where Do We Stand?

🏆 Health Disparities

An Executive Order was signed to establish the Office of Health Equity. The office has begun to receive funding to provide grants to increase the number of minority health care providers.

🏆 Quality Outcomes

- The HAI legislation requires uniform measurement and reporting for hospitals.
- Additional quality and safety measures will be required for hospitals through regulations.

🏆 Child Wellness

The commonwealth has increased funding for subsidized school breakfasts and improved health curriculums.

🏆 Adult Wellness

Smoking ban legislation has passed both Houses and is being considered by a conference committee.

🏆 Long Term Living

- The Assisted Living Residence licensure law has been enacted.
- Barriers to timely receipt of home and community waiver services have been eliminated and nursing home transition programs have been established.

🏆 End of Life and Palliative Care

- The Advanced Directive bill has been enacted.
- The Department of Health is working on hospice regulations to include small residential hospices.
- A cost /benefit analysis of mandating provision of palliative and hospice services has been planned.

Prescription for Pennsylvania: Budget Initiatives



Edward G. Rendell, Governor – Rosemarie B. Greco, Director, Governor's Office of Health Care Reform

www.RxforPA.com

PRESCRIPTION FOR PENNSYLVANIA INITIATIVES BY AGENCY Amounts in Thousands		
By Agency/Initiative	2007-08 Amounts	2008-09 Amounts
EDUCATION		
1. Improving School Nutrition	\$6,043	\$6,239
Federal Funds	\$430	\$216
2. Improving Physical and Health Education	\$30	\$30
HEALTH		
1. Improving Access to Primary Care	\$2,900	\$4,750
2. Improving Health Literacy	\$500	\$515
3. Implementing Health Equity Strategies	\$500	\$500
4. Reducing Health Associated Infections	\$2,000	\$2,644
INSURANCE		
1. Strengthening Small Business Insurance Regulation	\$268	\$266
AGING		
1. End of Life Services Cost Analysis	----	\$100
GOVERNOR'S OFFICE OF HEALTH CARE REFORM		
1. Implementing Prescription for Pennsylvania	\$700	\$700
2. Improving Chronic Care Management	\$2,200	\$2,200
3. Reducing Health Associated Infections	\$2,000	\$2,000
4. Pennsylvania Health Information Exchange	----	\$4,983
TOTALS		
a) State Funds	\$17,141	\$24,927
b) Federal Funds	\$430	\$216
c) Total Funds	\$17,571	\$25,143

Prescription for Pennsylvania Budget Initiatives by Agency



\$25.1 Million in State and Federal Funds

👉 **Pennsylvania Health Information Exchange (PHIX)**

\$5 million to begin a 5-year project to create a platform to share patient health care information. Funding will be augmented with investment from health care providers and insurers. PHIX will be the statewide framework necessary to implement such initiatives as e-Prescribing and Electronic Medical Records.

👉 **New Tools to Improve Access to Care**

\$1.8 million for funding for a minimum of 75 awards split among the following 3 programs: a new nurse loan repayment program, an enhanced primary care practitioner loan repayment program, and an expanded community challenge grant program.

👉 **Hospice and Palliative Care Services**

\$100,000 to conduct an assessment of the cost effectiveness of requiring coverage of hospice and palliative care services.

Continued Funding for 2007-08 Budget Initiatives

👉 School Nutrition Incentive Program

\$6.5 million in annual funding for financial incentives for local education agencies to increase the availability of nutritious foods for students.

- Status: More than 500 local education agencies are currently participating.

👉 Health Associated Infections Identification and Reporting

\$2.6 million which is an increase of \$600,000 over the amount appropriated last year to support implementation of the provisions of Act 52 of 2007.

- Status: The Department of Health is leading this initiative, working with the Patient Safety Authority and PHC4. Key activities include approval of infection control plans, hospital surveillance implementation, nursing facilities reporting and a public awareness campaign.

👉 Physical and Health Education

\$30,000 project to assist elementary school teachers with integrating healthy living concepts into lesson plans.

Continued Funding for 2007-08 Budget Initiatives

👉 Increase Access to Primary Health Care

\$2.9 million to continue funding of awards made this year, as well as additional awards to be granted in response to a reissue of the RFA for services in underserved areas.

- Status: Providers have been selected to establish a new community health center to serve the Gettysburg area and two mobile health clinics to serve Forest, Venango and Greene counties.

👉 Chronic Care Management

\$2.2 million to implement a comprehensive, evidence-based chronic-care management model for persons with chronic disease.

- Status: The Chronic Care Management, Reimbursement and Cost Reduction Commission presented the Governor and legislative leadership with a Strategic Plan in February, 2008 to improve the delivery of health care to Pennsylvanians who require chronic care. Regional rollouts will start in May, with statewide rollout by September.

Continued Funding for 2007-08 Budget Initiatives

👉 Prescription for Pennsylvania Implementation

\$700,000 supports management and coordination of activities needed to implement the Prescription for Pennsylvania initiatives.

👉 Health Literacy

\$515,000 for a project to improve how critical health information is conveyed to patients. A needs assessment grant has been awarded to evaluate existing health literacy programs. The results will be used to direct project awards in the 08-09 fiscal year.

👉 Improve Health Equity

\$500,000 for projects that will increase the number of health professionals equipped to address the needs of racial and ethnic minorities.

👉 Small Business Insurance Regulation

\$266,000 supports the administrative capacity to implement the proposed increased premium rate review authority for the small employer market.

Critical Legislative Action Needed Now

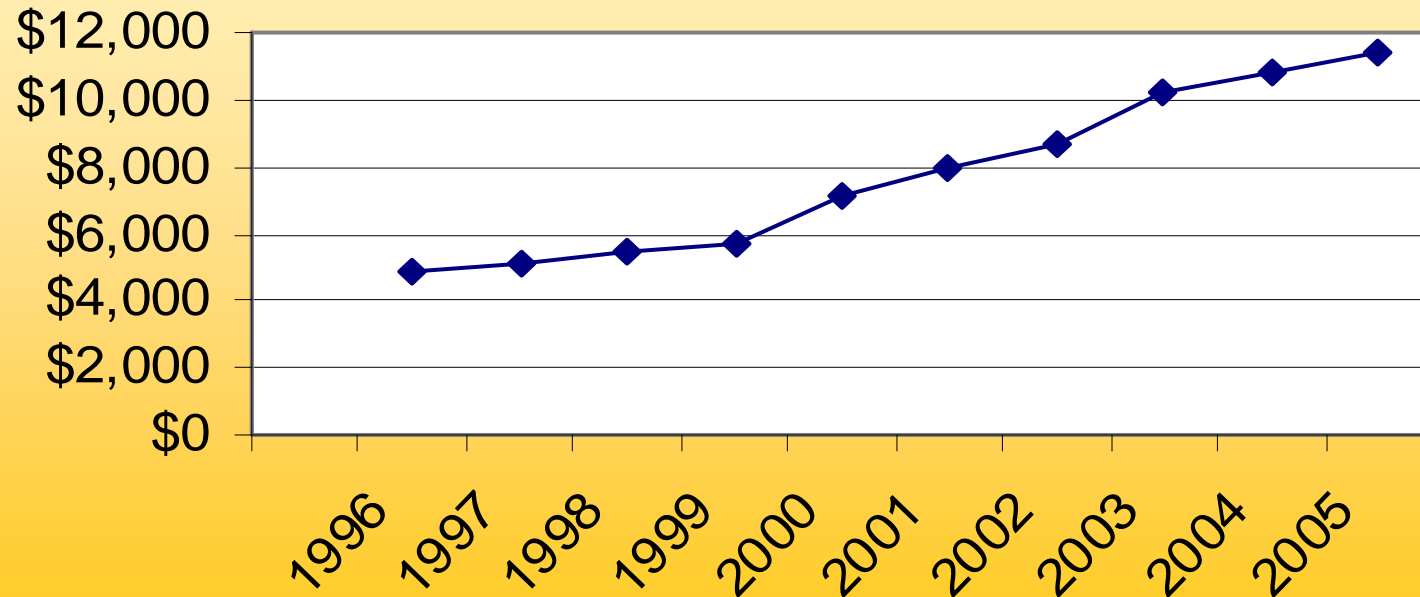
- ✚ Provide uninsured adults access to affordable health care coverage through the new Cover All Pennsylvanians program.
- ✚ Make all Pennsylvania workplaces, restaurants and bars smoke free.
- ✚ Reduce cost and stabilize health insurance premiums for small employers with small group reforms, including modified community rating.

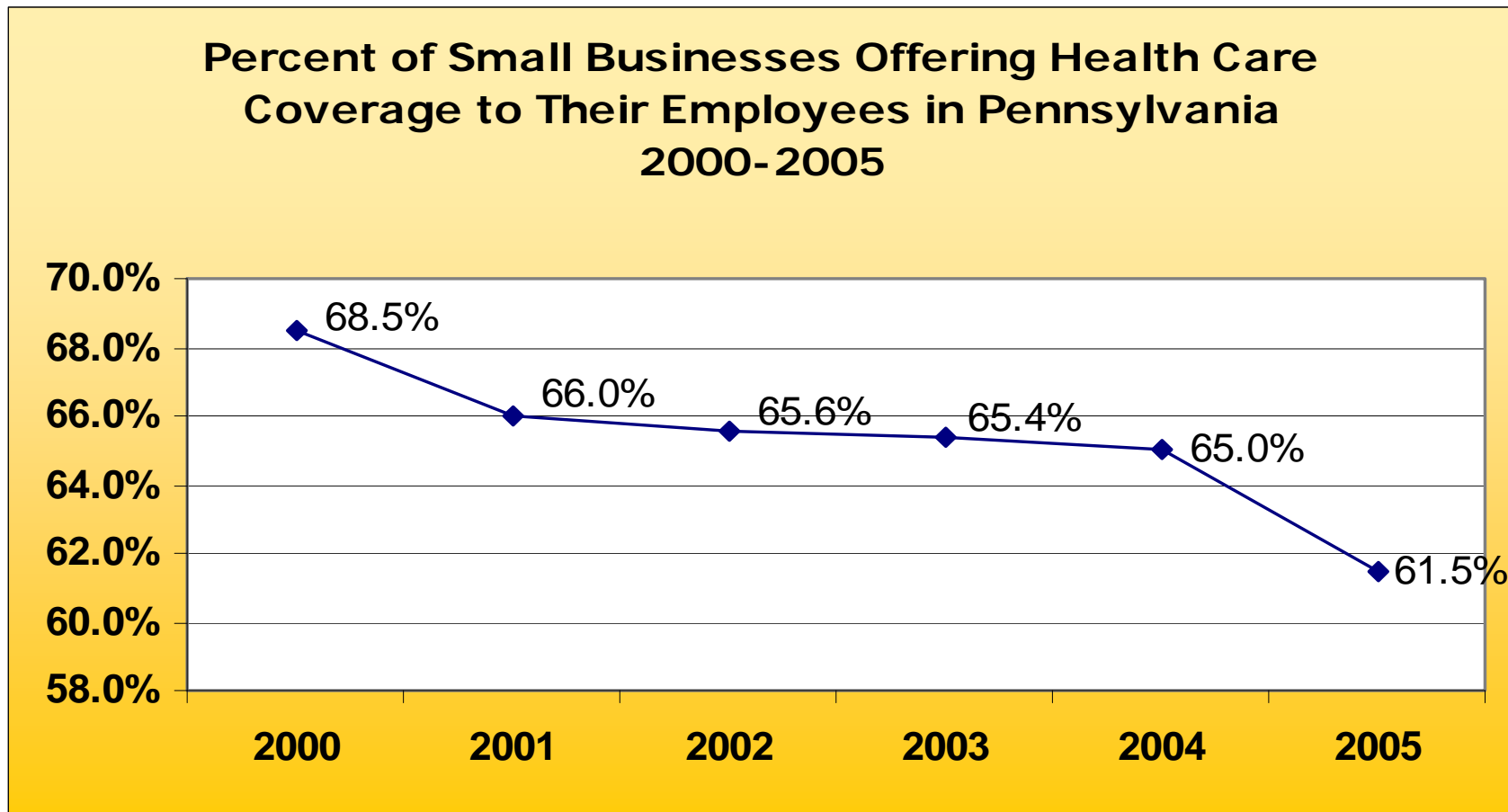
Individual and Employer-Based Insurance Reform

Why is insurance reform so important?

- ✦ Pennsylvania has experienced the second highest loss of employer-based health care coverage for those under 65 years old in the country.
- ✦ 491,392 fewer Pennsylvanians were covered through their employer in 2007 than in 2000.
- ✦ The growth and volatility in the premium costs in Pennsylvania for small employers are a driving factor for this erosion.
- ✦ The average cost for premiums for family coverage in Pennsylvania through employer-sponsored health care has gone from \$4,859 in 1996 to \$11,416 in 2005.
- ✦ The average premium per enrolled employee of a small business in Pennsylvania more than doubled from \$2,036 to \$4,625.
- ✦ Pennsylvania is one of only two states that do not limit the rating factors insurance companies can use to determine rates in the small group and individual markets.

Average Employer Cost of Health Insurance Coverage for a Family of Four in Pennsylvania 1996 - 2005





Employer-Based Insurance Reforms for Small Employers

- ✦ Affordability of health insurance is a problem for everyone, but the problem is worse for small employers with 50 or fewer employees.
- ✦ One employee's large medical claim can cause a rate spike for the group.
- ✦ Pennsylvania is one of only two states that do not limit the rating factors insurance companies can use to determine rates in the small group and individual markets.

Rate Bands and Modified Community Rating will Help Reduce Cost by:

- ✦ controlling rate spikes experienced by individuals and small employers that occur when an enrollee incurs a serious claim or a person with a chronic medical condition is hired;
- ✦ creating a larger community pool spreading risks among all groups and ameliorating the cost increases of large claims or chronic care within its own group; and
- ✦ prohibiting insurers from driving up the cost of insurance based on narrowly-defined demographic characteristics.

Other Critical Changes to Bring Down Insurance Costs

- ✦ Require insurers to issue standardized plans to promote competition for small employers and make it easier for small employers to choose a health care plan.
- ✦ Require a minimum loss ratio of 85% to ensure that employers are getting good value for their premium dollar.
 - An 85% minimum loss ratio for small group insurance plans could result in an average cost savings of about 5% or \$500 on a \$9000 policy.
- ✦ Provide rate review authority for the Insurance Commissioner, along with the authority to monitor rates.
 - This ensures that cost savings from health care reforms, including the health care acquired infection controls and improvements in the management of chronic care included in Rx for PA, are passed on to small employers and individuals.

Cover All Pennsylvanians

"CAP"

Major Pennsylvania Newspapers Have Supported CAP over the Past Three Months

- 🏰 Allentown Morning Call
- 🏰 Erie Times
- 🏰 The Harrisburg Patriot News
- 🏰 Johnstown Tribune-Democrat
- 🏰 Philadelphia Daily News
- 🏰 Philadelphia Inquirer
- 🏰 Pittsburgh Post-Gazette
- 🏰 Wilkes-Barre Citizen's Voice

Who are the Uninsured?

- 👑 **71%** are employed.
- 👑 **76%** have incomes less than \$60,000 for a family of four.
- 👑 **27%** have been without health coverage for more than 5 years.
- 👑 **49%** are between 18 and 34 years of age.
- 👑 **70%** list cost as a reason for not having health insurance.

CAP is NOT

- ✦ CAP is NOT an entitlement program.
 - As in adultBasic, enrollment is limited by available funding.
 - Waiting lists will be created if all funds are committed.
 - The Center for Medicare and Medicaid Programs (CMS) will permit changes in eligibility prospectively if needed to manage funding.

- ✦ CAP is NOT a government-provided health care program.
 - The commonwealth will contract with commercial HMO's and insurers to provide the program.

- ✦ CAP is NOT universal health care.

CAP is

- ✦ CAP is an affordable basic health care plan for eligible uninsured adults and small businesses.
- ✦ CAP ensures that uninsured adults earning up to 300 percent of the federal poverty level and low-wage small business employees will be subsidized with state funds and federal matching funds where applicable.
- ✦ CAP allows uninsured adults who earn more than 300 percent of the poverty level to purchase CAP coverage at the same affordable premium, but without state or federal subsidy.

Who Is Eligible for CAP and What Is the Cost?

Federal Poverty Level	Single Person Maximum Gross Income	Family of 4 Maximum Gross Income	Monthly Premium per Adult	Go Bare Period
0-150%	\$15,600	\$31,800	\$0	90 Days
150-200%	\$20,800	\$42,400	\$40	90 Days
200%-300%	\$31,200	\$63,600	\$60	180 Days
Above 300%			\$286 (at cost)	180 Days

Small Businesses: Who Is Eligible and What Does It Cost?

👉 Participation is Open to Small Low-Wage Businesses that:

- have 2-50 employees, with enrollment of at least 75%;
- have employees with an average salary that is less than the average salary of all Pennsylvania employees; and
- have had no employee health insurance benefits for at least 180 days prior to enrollment.

👉 Expected Costs

- Employers will pay \$130 a month for each employee.
- Employees will pay \$70 a month.
- Enrollees will pay co-payments for selected services.
- Employees with family income below 300 percent of the poverty level will qualify for subsidy and pay monthly premiums at the individual enrollee rates, based on family incomes.

How Will It Work?

Service Delivery

- Managed care plans will be selected through a competitive bid process.
- Pennsylvania's Blue Cross/Blue Shield plans will be required to bid.
- Successful bidders will be paid on a per enrollee basis, assuming 100 percent of the financial risk.
- The benefit package will include preventive care, physician visits, hospitalization, emergency services and limited behavioral health care. Pharmacy services will be provided through a pharmacy benefits manager.

How Will It Work?

Small Businesses

- ✦ Employers will apply to a participating plan to enroll in Cover All Pennsylvanians (CAP).
- ✦ Once determined eligible, employers will select CAP managed care plan(s) that will be offered to employees.
- ✦ Qualifying employees will enroll in CAP through their employer.
- ✦ Employers will pay at least \$130 of employees' monthly premium.
- ✦ Employees may receive an additional subsidy from the commonwealth and federal government based on their family income.

How Will It Work?

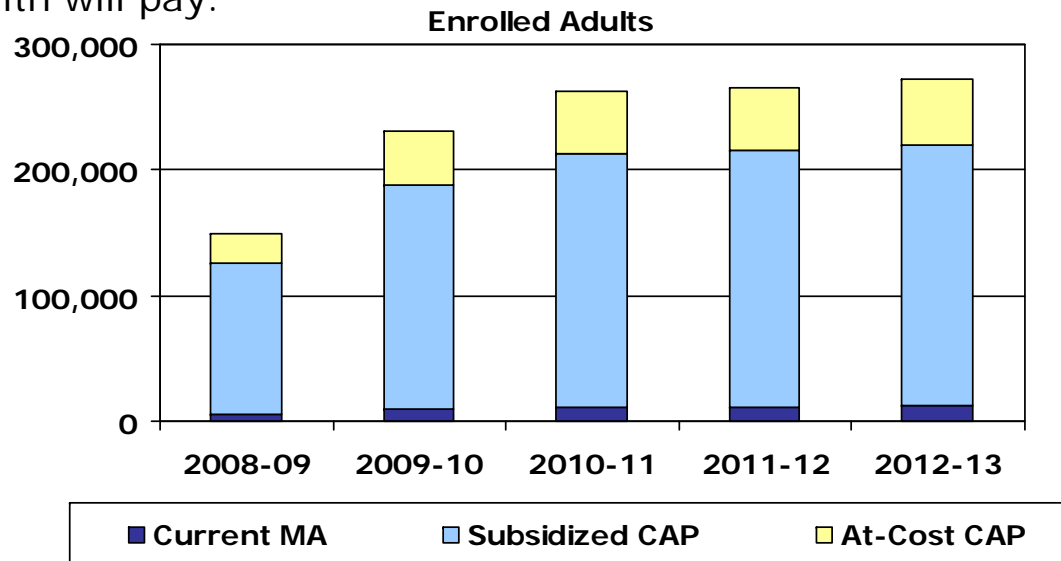
Individuals

- Individuals will apply directly to a participating CAP managed care plan.
- Once determined eligible, individuals will receive coverage.
- Individual enrollees and the commonwealth and federal government will share premium costs based on family income.

Who Will Enroll In CAP?

Through extensive outreach efforts, Cover All Pennsylvanians (CAP) expects to enroll nearly 149,500 adults in 2008-09, the initial year of the program, growing to an enrollment of nearly 272,000 in 2011-12.

While the majority of the uninsured are projected to enroll in the subsidized component of CAP, including those transferring from the existing adultBasic program, some will be eligible instead for the commonwealth's existing Medical Assistance program. Others will purchase health care coverage through CAP at the same affordable premium rate that the commonwealth will pay.



Frequently Asked Questions on CAP

👉 Will CAP cause employers who DO provide insurance to drop it?

- A “go-bare” period comparable to CHIP “go bare” periods will be in place for both employers and those seeking individual coverage.
- The commonwealth will check every applicant’s insurance status to see if “go bare” periods have been met, and will be able to accurately track crowd-out.
- Crowd out under CHIP has been minimal and CMS has been impressed with Pennsylvania’s approach.
- If “creditable coverage” is offered by an employer at a lower cost, CAP will buy Employer Sponsored Insurance for those applicants.

👉 Will CMS approve this plan?

- Preliminary talks with CMS are underway and reception to the general plan has been very positive.
- Pennsylvania legislative action is needed to move CMS to final approval stage.

How Will CAP Be Funded?

2008-09 Funding Sources	
Existing State Funds - Tobacco Settlement Fund	\$49.5 million
Existing State Funds - Community Health Reinvestment	\$121.9 million
Cigarette Tax Increase	\$66.1 million
New Tax on Other Tobacco Products	\$48.0 million
Federal Funds – Medicaid	\$191.2 million
Cost Sharing – Enrollees	\$77.5 million
Cost Sharing – Small Employers	\$2.0 million
Total Revenue	\$556.2 million

How Will CAP Be Funded?

- ✦ The health care premiums and the administration costs of Cover All Pennsylvanians will total approximately \$479.5 million in 2008-09. These costs will be covered with:
 - existing funding sources now dedicated to adultBasic;
 - new federal matching funds; and
 - new state funds from an increase in the tobacco tax and a new tax on smokeless tobacco products.

- ✦ The revenue balance generated in 2008-09 will be used to fund future year enrollment growth.

- ✦ As enrollments increase in succeeding years, additional revenue will be needed from:
 - a gradual redirection of a portion of state-provided uncompensated care payments, beginning in 2009-10; and
 - the use of available balances from the State's Health Care Provider Retention Account, beginning in 2011-12.

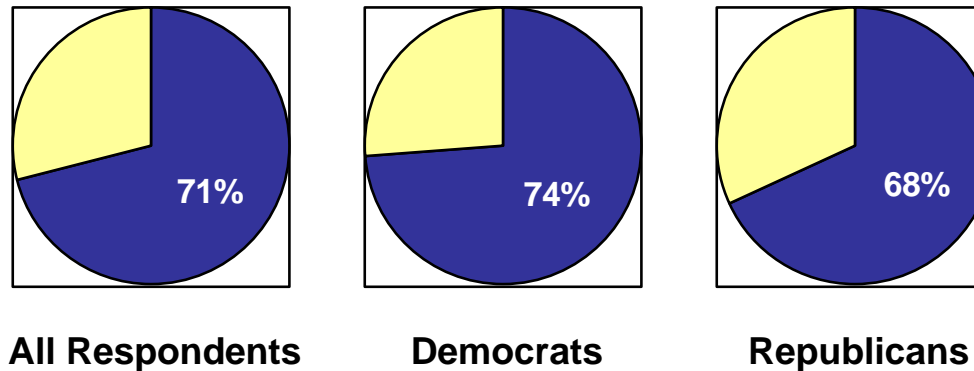
Federal Matching Funds

- ✦ Pennsylvania has already invested significant state funds to cover the uninsured in our adultBasic Program.
- ✦ We are not maximizing our state dollars - as Vermont, Maine, and Massachusetts have done – by drawing down federal money available through a federal Medical Assistance waiver.
- ✦ The federal government reimburses the state 54 cents of every dollar it spends on CAP.
- ✦ If the General Assembly had passed CAP last March when HB 700 (the Rx for PA legislation) was introduced, the federal matching monies that the state would have received would have covered an additional 56,324 people per month on average.

Cigarette Tax Increase, Cigars and Smokeless Tobacco Tax

- 👑 10 Cent Increase in Cigarette Tax.
- 👑 36 Cent New Tax on Cigars.
- 👑 36 Cent New Tax on Smokeless Tobacco.
- 👑 Pennsylvania is the only state that does not tax smokeless tobacco products.

Cigarette Tax Increase



- ✦ A 2007 Quinnipiac University Poll shows that 71% of Pennsylvanians supports higher cigarette taxes to help pay for health insurance.
- ✦ Republicans (68%) and Democrats (74%) alike approve of this funding source.

Health Care Providers Retention Account and AutoCAT

- ✦ The Health Care Provider Retention Account (HCPRA) was created as part of the Governor's medical malpractice reforms in 2003.
- ✦ HCPRA is the fund that holds cigarette tax revenue to help pay for the Mcare abatement given to physicians and certified nurse midwives.
- ✦ Because of the improvement in the medical malpractice climate in Pennsylvania, filings and annual payouts have decreased dramatically, thereby creating reserves which have not been needed to pay for the abatement in the last two years.
- ✦ The Automobile CAT Fund holds traffic ticket surcharges which have been dedicated to paying large medical malpractice claims that predate the HCPRA.
- ✦ The AutoCAT Fund also has a significant balance that is no longer needed for its original purpose.
- ✦ These positive developments present an opportunity to redirect funding to help pay for CAP.

Why Are Mcare and CAP Linked?

- ✚ Governor Rendell originally proposed an employer assessment to help fund CAP. In December, he offered three alternative options for funding CAP that do not rely on an employer assessment.
- ✚ All three alternatives rely on some reallocated dollars from the Health Care Provider Retention Account.
- ✚ Each option would continue some support for Mcare abatements or for the Mcare unfunded liability, while also providing some revenue for health insurance for the uninsured.
- ✚ The Administration is working with the PMS, HAP and other provider organizations to come to agreement on a preferred approach.
- ✚ 2008 Mcare bills are due on March 31 and agreement on funding for both Mcare and CAP is needed by then.

Disproportionate Share Hospital (DSH) Payments

- ✦ The Center for Medicare and Medicaid Programs (CMS) expects states that expand insurance coverage to make some reductions in DSH payments.
- ✦ Will the reduction in DSH payments hurt hospitals?
 - No DSH reduction is called for in year one, although 100,000 more individuals will have health insurance.
 - The reduction in later years corresponds to the projected increase in insured population.
 - The reduction is 13% in year two, and the reduction in year five is only 29% and hospitals keep the remainder of DSH.
 - Revenue from CAP will more than offset the modest DSH reductions that are proposed.
- ✦ To illustrate: The fifth year DSH reduction, which is the largest, is about \$65 million. By contrast, fifth year CAP program costs are \$1,064,805,000 – a good portion of which will be hospital costs.

Is the funding for CAP sustainable?

YES!

- ✦ Multiple funding streams create stable funding for CAP.
- ✦ The funding plan takes advantage of available federal matching funds.
- ✦ CAP enrollment will be limited to the available funding.
- ✦ If necessary, waiting lists can be imposed.
- ✦ The commonwealth also has the option to lower the upper income limit for subsidy through a state plan amendment.

The Cost of Inaction is Too Great.