MARYLAND'S IMPLEMENTATION OF THE AFFORDABLE CARE ACT

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Good morning Chairman Harkin, Ranking Member Enzi and Members of the Committee. Thank you for this opportunity to discuss Maryland's implementation of the Affordable Care Act.

Governor Martin O'Malley has stated, "With public and private innovation, Maryland is implementing the Affordable Care Act to strengthen coverage, improve health, and support our competitiveness in the global economy."

In my testimony, I will provide some background on Maryland's health care and health insurance system, describe the State's implementation of the Affordable Care Act to date and the key reform efforts underway, and discuss the next steps for Maryland's Health Benefit Exchange.

MARYLAND'S HEALTH CARE SYSTEM

To understand the impact of health care reform in Maryland, it is helpful to understand some important elements of the state's health care system. These include:

- Insurance Regulatory Oversight. When a carrier proposes to sell a health insurance policy in Maryland, the policy form and the proposed rates must first be filed with the Maryland Insurance Administration and then approved by the Insurance Commissioner. Although the standard varies slightly for nonprofit health service plans, HMOs and insurers, generally premium rates may not be excessive, inadequate or unfairly discriminatory.

- The small business market. In 1993, Maryland's small group market reforms required the Maryland Health Care Commission to develop a comprehensive, standardized set of benefits with cost sharing. Plans are guaranteed issue with community rating modified for age, family composition, and geographic location; riders may be purchased that increase the benefits or reduce the cost sharing. The state provides premium tax credits to small employers with fewer than 20 employees and average wage of less than $50,000 who have not offered insurance in the past year. Private third-party administrators work closely with insurers to offer additional benefits to small employers. The market now provides coverage to nearly 400,000 individuals working for more than 47,000 small businesses.[1]

- The individual market. Maryland's individual market is not guaranteed issue, so insurers are permitted to deny coverage to applicants with pre-existing conditions. Approximately 160,000 Marylanders obtain health insurance through this market.

[1] See http://mhcc.maryland.gov/smallgroup/smallemployer.html for additional information on Maryland's small group market.

- The high risk pool. In 2002, Maryland established a high-risk pool, the Maryland Health Insurance Plan (MHIP), funded by a hospital assessment. MHIP now covers approximately 20,000 residents who cannot obtain coverage through the individual market because of a pre-existing medical condition. MHIP Plus provides additional premium subsidies for low income residents.[2]

- The all-payer hospital rate setting system Maryland is the only state in the country that sets hospital rates so that all payers, public and private, pay the same fees at the same hospital. The independent Health Services Cost Review Commission determines the rates at each hospital based on how much uncompensated care the hospital provides, the local labor market, and other factors. This "all-payer" approach allows the state to create incentives for cost savings, rather than cost shifting. It is an important reason why the cost of a Maryland hospital admission has moved from 26 percent above the national average in 1976 to more than 3 percent below the national average by 2009.[3]

Maryland has also expanded access to health care in several different ways over the last five years. In July 2006, Maryland established a Medicaid waiver program that provides primary care access and prescription drug benefits to low-income individuals. In 2007, the State expanded Medicaid coverage to parents and strengthened the package of benefits in our waiver program. Maryland also allowed young, dependent adults up to age 25 to stay on their parents' insurance and took action to close the donut hole for seniors.

After a young boy tragically died in Prince George's County from a tooth infection, Maryland took a number of steps to expand access to timely dental care. Significant improvement has followed, and last year, Maryland was one of just six states in the nation to receive an A grade for oral health from the Pew Charitable Trusts.[4]

Despite this progress, approximately 13% of Maryland residents remain uninsured, representing more than 700,000 people.[5] In addition, significant increases in the cost of coverage continue to threaten employer-based health insurance. A Commonwealth Fund

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[2] See http://www.marylandhealthinsuranceplan.state.md.us/ for more information on the Maryland Health Insurance Plan.

[3] See http://www.hscrc.state.md.us/ for more information on the Health Services Cost Review Commission.

[4] Pew Charitable Trusts. *The Cost of Delay: State Dental Policies Fail One in Five Children*. February 2010. http://www.pewtrusts.org/uploadedFiles/Cost_of_Delay_web.pdf

[5] Maryland Health Care Commission. Coverage in Maryland through 2009. January 2011. http://mhcc.maryland.gov/health_insurance/insurance_coverage/insurance_report_2009_20110120.pdf

report found that the average premium for family coverage offered by private sector employers in Maryland rose from $9,217 in 2003 to $13,833 in 2009, an increase of 50%.[6]

Maryland intends to use the tools provided by the Affordable Care Act to address challenges in access, cost, and quality.

Implementation of the Affordable Care Act to Date

To date, a number of provisions of the Affordable Care Act have taken effect nationally and are having a tangible, positive impact on the health and well-being of Maryland citizens. These include:

- Young adults can stay on their parents' insurance until age 26;
- Seniors can receive additional assistance in closing the donut hole;
- Children can access health insurance without being declined for pre-existing conditions;
- Insurers must abide by new medical loss ratio requirements, standardizing the amount of premium dollars that must be spent on health care;[7] and
- Small employers can access new tax credits for coverage.

In addition, Maryland has received additional support under the Affordable Care Act to strengthen the review of insurance rates, provide additional support for MHIP, and implement public health programs to prevent illness.

[6] The Commonwealth Fund. *State Trends in Premiums and Deductibles, 2003-2009*. Dec. 2, 2010. http://www.commonwealthfund.org/~/media/Files/Publications/Issue%20Brief/2010/Dec/1456_Schoen_state_trends_premiums_deductibles_20032009_ib_v2.pdf

[7] Maryland's existing MLR for the commercial group market was similar to the standard in the Affordable Care Act, and the MLR for the individual market was less than the Affordable Care Act standard. Maryland did not request a waiver because the data did not support a conclusion that the new medical loss ratio target in Maryland would disrupt the individual market. To date, no carrier has indicated its intent to withdraw, and the acting Insurance Commissioner believes the market is adjusting to the new medical loss ratio.

Reform Efforts Underway in Maryland

The morning after President Obama signed the ACA into law, Governor Martin O'Malley established the Health Care Reform Coordinating Council to oversee state implementation of the Affordable Care Act.

Through the end of last year, the Council held more than 30 public meetings and received hundreds of comments from physicians, hospitals, payers, unions, public and mental health advocates, brokers, patients, and lawmakers. The Council presented a report in January with 16 recommendations reflecting this public input. The recommendations cover the full range of topics critical to effective implementation of the ACA, such as entry into coverage, the safety net, and the health care workforce. The Council and a new Governor's Office of Health Care Reform will continue coordination and oversight of the State's implementation of these recommendations. I have attached this report to my testimony.

As part of its work, Council asked a non-partisan healthcare think tank at the University of Maryland in Baltimore County to provide an independent analysis of reform's impact on our state budget. This analysis found that successful implementation will result in estimated net savings of $853 million over the next ten years. The major components of Maryland's savings include an increase in federal assistance for key populations, revenue from phasing out Maryland's high risk pool, an increase in revenue from existing premium assessments on commercial insurance products, and partial reductions in state funding for safety net programs.

The analysis also found that after the first decade, these savings begin to decline, underscoring the critical imperative that the State make progress on bending the cost curve.

As part of its assessment in preparation for ACA implementation, the Council reviewed a number of innovative efforts already underway to control costs in Maryland. These include:

Implementing public-private initiatives on quality. The Maryland Health Quality and Cost Council, a public-private partnership led by the Lt. Governor, has developed statewide initiatives on hand hygiene, blood wastage, hospital-acquired infections, and workplace health.[8]

Reducing preventable hospital complications. Maryland is using the only all-payer hospital rate system in the country to collect reliable data on every hospital admission, which it can then use to create payment incentives to reduce preventable complications. In fiscal year 2010, the rate-setting Commission identified nearly 50,000 potentially preventable complications that cost our system approximately $522 million. Ranking hospitals by rates of complications, the Commission then redistributed $4 million from the hospitals with more preventable

[8] See http://dhmh.maryland.gov/mhqcc/ for more information on the Maryland Health Quality and Cost Council.

complications to those that had fewer. Since this process began, rates of preventable complications have declined substantially across the board – approximately 12% from 2009 to 2010 for an annual cost savings of $62.5 million.[9]

Implementing payment reform. Maryland is also using the state's unique all-payer rate setting system to pay for value, rather than volume. For example, we are expanding the bundle of payments to hospitals to include both admissions and readmissions over a 30 day period. Twenty five of the State's 46 hospitals are choosing this payment structure, which will provide incentives to reduce unnecessary rehospitalizations. An additional 10 community hospitals with annual revenues of approximately $1.4 billion have volunteered to operate under global budgets, which provide incentive to reduce unnecessary admissions, readmissions, and emergency department visits. In response to this incentive, one hospital is expanding its outpatient program for diabetes by hiring another endocrinologist. Another is planning to create multidisciplinary teams to plan for discharge and post-discharge care. As hospitals innovate, we will capture their best practices and share them throughout our system.

Establishing patient-centered medical homes. Maryland passed legislation in 2010 to create a pilot program involving multiple payers, 60 practices, more than 340 providers and 250,000 patients. Under the program, which is overseen by the Maryland Health Care Commission, primary care doctors receive extra funding to support comprehensive care for patients and share in the savings from better coordinated and higher quality care. The state's largest private insurer, CareFirst, is also launching a major medical home project across the state.

Expanding health information technology. Maryland has established a Health Information Exchange to allow for the exchange of information between community providers and hospitals across the state. An independent nonprofit called the Chesapeake Regional Information System for our Patients (CRISP) is facilitating physicians' access to health information technology. More than 400 primary care doctors have already joined.

Integrating the health care system in public health planning. Maryland is developing a State Health Improvement Plan around specific health outcomes. Critical to this plan will be efforts to prevent unnecessary illness and cost. Beginning this summer, regional planning will bring together public and private efforts to address key health challenges and disparities across the state.

Each of these efforts will support effective implementation of the Affordable Care Act and the long-term sustainability of our health care system.

[9] See http://www.hscrc.state.md.us/init_qi_MHAC.cfm for more information on efforts to reduce preventable complications in Maryland hospitals.

Next Steps for Maryland's Health Benefit Exchange

The Health Benefit Exchange provides a mechanism for organizing the health insurance marketplace to help consumers and small businesses shop for coverage in a way that permits easy comparison of available plan options based on price, benefits, and quality. It also provides access to federal subsidies and tax credits. Maryland has set in motion key steps that will lead to a successful program for individuals and small businesses.

The Administration has introduced legislation in the State's General Assembly that lays the foundation for development of Maryland's Exchange by establishing its governance structure and setting forth the core duties and functions mandated by the Affordable Care Act. When enacted, it will establish the Exchange as a public corporation, governed by a board with three state officials and six nongovernmental members. Over the next year, the Exchange will hire initial staff and analyze key strategic decisions for Maryland's Exchange, including whether to create a separate exchange for the small group market; whether to engage in selective contracting; and how to design the navigator program. The Exchange will also evaluate how to build upon existing resources in the state, including insurance producers, third party administrators, health care advocates, and other relevant entities, to execute the required functions of the Exchange. The Exchange will make recommendations on these issues and others by early 2012.

Last month, Maryland was awarded an Innovator Grant of $6.2 million to develop several of the essential technical components for the Exchange, including the automatic confirmation of income and citizenship eligibility. The goal is to develop a seamless portal for individuals, small businesses and others to access coverage. Our proposal is based upon a successful eligibility pilot program currently underway in the state, and our goal is to develop an IT solution that will be compatible with a wide range of legacy eligibility systems. States including Arizona, Indiana, California, West Virginia, and Oregon provided letters of support for this application and will be collaborating with us as this effort moves forward.

Conclusion

Maryland is implementing the Affordable Care Act. Recently, Lt. Governor Anthony Brown delivered a keynote address in which he stated that the law provides the "opportunity to change the face of our health care system to better support the vitality and strength of our families, businesses, and communities ... to expand wellness and prevention …. to reduce hospital readmissions and preventable complications … to expand health information technology … and to address health disparities and chronic disease."

He concluded: "Maryland intends to seize the moment and use the tools provided by the Affordable Care Act to build a better future for our state."