Claims Expenditure Assessment: A Proposal to Replace the Provider Tax

Issue
The provider tax, a controversial source of funding for Medical Assistance (MA), MinnesotaCare and several other long-standing health access programs since 1992, is scheduled to sunset December 31, 2019. Although the Health Care Access Fund (HCAF), the fund into which the provider tax is deposited, is solvent through FY 2021, replacement funding is needed to maintain health care coverage for low-income Minnesotans.

Approach
Given the scheduled provider tax sunset, the MMA recognized the need to identify potential alternative sources of revenue. To guide its review of potential alternatives, the MMA established three guiding principles:

- **Preserve Coverage**: Any alternatives must provide ongoing funding for current MinnesotaCare and MA coverage and historic HCAF programs.
- **Modernized**: Any alternatives must generate revenue that reflects current spending needs and recognizes post-ACA federal and state financing dynamics.
- **Sustainable**: Any alternatives must be sufficient to meet future spending needs and qualify for appropriate Medicaid matching funds.

The MMA engaged experts to assist it in its work – Harbage Consulting, a national health policy and communications consulting firm; and, the State Health Access Data Assistance Center (SHADAC), a health policy research center affiliated with the University of Minnesota School of Public Health.

After examining more than a dozen different options, a claims expenditure assessment was identified.

Claims Expenditure Assessment Mechanics
A claims expenditure assessment would be applied to all non-federal adjudicated health care claims for a Minnesota resident processed by a health plan, insurer, or third-party administrator (TPA). Unlike the provider tax, it would not apply to patient out-of-pocket spending, including co-pays, deductibles, cosmetic, or non-covered services.

Assessment Rate
Financial modeling conducted by SHADAC estimated that a claims expenditure assessment of 1.67% to 1.99% would generate sufficient revenue (see Methodology section, below, for additional detail).

Advantages
A claims expenditure assessment preserves MA and MinnesotaCare coverage and will generate sufficient revenue to support other ongoing HCAF spending.

A claims expenditure assessment is based on health care spending, which will allow revenue to keep pace with health care inflation. A claims expenditure assessment also meets Centers for Medicare and Medical Services requirements for federal matching funds.

A claims expenditure assessment is broad based, as it would be applied to all non-federal claims for health care services provided to Minnesota residents. The assessment is also permissible under ERISA and supported by federal case law.
A claims expenditure assessment reflects current spending needs and recognizes federal and state financing dynamics enacted since the Affordable Care Act.

A claims expenditure assessment is less regressive than the provider tax, because it is not applied to patient out-of-pocket spending, non-covered services, or charity care.

A claims expenditure assessment, unlike the provider tax, does not put Minnesota border community health care facilities or national centers of excellence at a competitive disadvantage.

A claims expenditure assessment results in a $100 million tax cut compared to the current provider tax.

A claims expenditure assessment is more efficient than the provider tax as fewer entities will collect and pay it compared to the number of providers paying the provider tax. It will also reduce administrative expenses for all health care providers.

A claims expenditure assessment will not increase health care costs as insurers and employers already account for the cost of the provider tax via the tax pass-through.

A claims expenditure assessment allows legislators to maintain their 2011 commitment to the provider tax repeal.

**Potential Disadvantages**
A claims expenditure assessment is new and would require new Department of Revenue processes.

Despite support from federal case law, a claims expenditure assessment may nevertheless be challenged in court on the question of ERISA preemption.

**Methodology**
SHADAC was engaged to estimate the assessment rate that would be necessary to generate the following 2020 revenue targets:

- **Low Target: $501 million**
  - Enough to cover all existing projected Health Care Access Fund expenditures and transfers [$628 million]
    - Minus projected existing ongoing Health Care Access Fund revenue (i.e., 1% gross premium tax and MinnesotaCare enrollee premiums) [$127 million]

- **High Target: $596 million**
  - Enough to cover all existing projected Health Care Access Fund expenditures [$628 million]
    - Minus projected MinnesotaCare enrollee premiums [$32 million]
      - This assumes the 1% gross premium tax is either repealed or rededicated.

To complete these estimates SHADAC built an Excel spreadsheet model based primarily on 2016 data, which was projected to 2020 and used to calculate what assessment rates would be needed to hit both the low and high revenue targets.

Additional detail about the SHADAC data sources and key assumptions are as follows:

**Claims for the Fully-Insured Market**
- Claims for the fully-insured market are based on net-incurred claims after reinsurance (excluding pharmaceutical rebates).
- Primary Data Source: 2016 National Association of Insurance Commissioners (NAIC) Supplemental Health Care Exhibit Report Volume I.
- We adjusted the 2016 fully-insured claims expenditure totals to:
objects

Excluding TRICARE expenditures (assumes 1% of the Minnesota population is enrolled in TRICARE). iii, iv, v

Excluding Federal Employee Health Benefit Plan expenditures (assumes the FEHBP per member claims profile is the same as the fully insured large group market). vi

Adjusting the final total claims expenditure upwards by 6% in order to account for the inclusion of standalone dental claims, which are not included in the NAIC data. vii

To project 2016 claims to 2020 for the large and small group market, we applied the National Health Expenditure Trend Projection growth rate calculated by the Office of the Actuary in the Centers for Medicare & Medicaid Services. viii

To project 2016 claims to 2020 for the individual market, claims were adjusted to reflect the 40% decline in claims between 2016 and 2017 ix and the National Health Expenditure Trend projection was used to predict growth between 2017 and 2020. viii

Claims for the Self-Insured Market

- The most significant data gap for SHADAC’s analysis is related to the self-insured market.

- To estimate the size of this market, we used 2016 data from the Minnesota Department of Health’s Health Economics Program. x, xi

- To estimate 2016 claims expenditure of the self-insured market we assumed claims experience would be the same as with the fully-insured market (see above) and that 95% of enrollees in this market were in large firms. xi

- As with fully-insured claims, we applied the National Health Expenditure Trend Projection growth rate to project 2016 claims to 2020.

Claims for MinnesotaCare and Medical Assistance

- Claims data for MinnesotaCare and Medical Assistance are based on DHS forecast data for 2020. xii

Results (in 000s)

2016 Actual (Adjusted) and 2020 Projected Claims

<table>
<thead>
<tr>
<th>Claims</th>
<th>2016</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minnesota Commercial Business - Fully Insured</td>
<td>$4,840,000</td>
<td>$5,150,000</td>
</tr>
<tr>
<td>Minnesota Commercial Business - Self Insured</td>
<td>$8,320,000</td>
<td>$9,980,000</td>
</tr>
<tr>
<td>MinnesotaCare</td>
<td>n/a</td>
<td>$490,000</td>
</tr>
<tr>
<td>Medical Assistance</td>
<td>n/a</td>
<td>$14,350,000</td>
</tr>
<tr>
<td>Total Claims</td>
<td>n/a</td>
<td>$29,980,000</td>
</tr>
</tbody>
</table>

Based on a total projected claims expenditure of **$29.9 billion in 2020**:

- In order to raise **$501 million** in revenue, a health care claims assessment rate would need to be: **1.672%**

- In order to raise **$596 million** in revenue, a health care claims assessment rate would need to be: **1.989%**

December 2018