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February 25, 2013

Ms. Pat Casanova
Director, Office of Medicaid Policy & Planning
Family & Social Services Administration
402 W. Washington Street
Indianapolis, IN 46204

RE: HEALTHY INDIANA PLAN – RELATIVE BENEFIT COST

Dear Pat:

Milliman, Inc. (Milliman) has been retained by the State of Indiana, Family and Social Services Administration (FSSA), Office of Medicaid Policy and Planning (OMPP) to provide actuarial and related consulting services for the state Medicaid program including the Healthy Indiana Plan. The Healthy Indiana Plan is currently offered under an 1115 waiver. The Healthy Indiana Plan has been proposed as the benefit plan option, if the state chooses to expand Medicaid coverage. This letter discusses the relative benefit cost of the Healthy Indiana Plan as compared with the current state plan services covered under the traditional Medicaid program.

EXECUTIVE SUMMARY

The Healthy Indiana Plan is currently offered to parents and childless adults under an 1115 waiver. The Healthy Indiana Plan provides health care coverage for approximately 40,000 individuals. The coverage varies from the traditional Medicaid Hoosier Healthwise program in three primary areas: (1) provider reimbursement rates, (2) benefits provided, and (3) POWER account contributions and incentives.

Under the Healthy Indiana Plan enacting legislation, provider reimbursement rates were established to be equivalent to Medicare reimbursement or 130% of the Medicaid rate, if no Medicare equivalent rate exists. Historically, Medicaid reimbursement for physician services has been approximately 60% (i.e., 40% below) the Medicare reimbursement rate.

In addition to having a different provider reimbursement level, the Healthy Indiana Plan offers different benefits than the Medicaid state plan. The Healthy Indiana Plan does not provide coverage for maternity services, vision or dental services, and has annual and lifetime benefit limits.

Finally, the Healthy Indiana Plan was developed based upon the concept of personal responsibility. The personal responsibility is associated with two key concepts: (1) self-pay contributions to the POWER account and (2) incentives / rewards related to the POWER account and use of preventive care services. These concepts of personal responsibility are not found in the Medicaid state plan program for the parent population, which requires few copayments for use of services. As identified in independent analyses from Mathematica, individuals that have a required POWER account contribution utilized services in a more efficient manner than those without a POWER account contribution. Further, Milliman's internal research and analysis, which has been performed for more than 40 years in the commercial health insurance market, indicates that as personal financial participation increases utilization of services decreases and services are used more efficiently. For example, in a commercial health insurance product, emergency room utilization for a plan with no copayment will be over 10% greater than for a plan with a \$50 copayment.

Due to the presence of the POWER account, we would expect that the overall health care costs to be lower under the Healthy Indiana Plan benefit design as compared to the current Medicaid state plan benefit package. However, caution should be considered since the differential may not be significant (i.e., anticipated to be less than 3%), due to a limited ability to influence beneficiary behavior even with the POWER account. While this may be a nominal amount, individual beneficiary behavior may change over time toward more responsibility for their own health care choices.

LIMITATIONS

The information contained in this letter has been prepared for the State of Indiana, Family and Social Services Administration and Office of Medicaid Policy and Planning (OMPP), and related entities to assist with understanding the variances between the Healthy Indiana Plan and the current state plan services. The data and information presented may not be appropriate for any other purpose. The letter may not be distributed to any other party without the prior consent of Milliman. Any distribution of the information should be in its entirety. Any user of the data must possess a certain level of expertise in actuarial science and healthcare modeling so as not to misinterpret the information presented.

Milliman makes no representations or warranties regarding the contents of this correspondence to third parties. Likewise, third parties are instructed that they are to place no reliance upon this correspondence prepared for OMPP by Milliman that would result in the creation of any duty or liability under any theory of law by Milliman or its employees to third parties.

The services provided for this project were performed under the signed Consulting Services Agreement between Milliman and OMPP approved May 14, 2010.



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Guidelines issued by the American Academy of Actuaries require actuaries to include their professional qualifications in all actuarial communications. I am a member of the American Academy of Actuaries, and I meet the qualification standards for performing the analyses in this report

After you have had an opportunity to review the enclosed material, please do not hesitate to contact me at 317-524-3512.

Sincerely,

A handwritten signature in black ink that reads "Robert M. Damler". The signature is written over a faint, light blue watermark that says "ELECTRONIC SIGNATURE".

Robert M. Damler, FSA, MAAA
Principal and Consulting Actuary

RMD/lrb