

Maine's Healthcare

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Communities



A Publication of the Maine Hospital Association

S P R I N G 2 0 0 4

What is Dirigo?

Dirigo Health (Public Law 469, 2003) became effective on September 13, 2003 after much debate and negotiation.

But, what exactly is Dirigo? Is it a health insurance plan? Is it a health reform plan? Is it a plan to keep health care costs in check? Is it a plan for improving the quality of health care? Or, is it a roadmap to guide the future of the health care system in Maine? The answer seems to be "all of the above."

Simply put, Dirigo is a voluntary program to address Maine's concerns about cost, quality and access to care.

How will Dirigo accomplish this? Through a multi-faceted plan that has two primary components: 1) creating a new health insurance plan, and 2) determining and implementing reforms to Maine's health system. Here's a look at **The Dirigo Health Insurance Plan.**

Some have referred to it as a major movement toward universal health insurance coverage because its primary goal is to insure all Mainers by July 1, 2009. The Governor envisions an insurance program that includes medical coverage as well as wellness programs designed to reduce the prevalence of preventable disease.



Through private carriers, Dirigo Health Insurance plans to make comprehensive, affordable health insurance coverage available to individuals, small businesses (with fewer than 50 employees) and the self employed.


Dirigo Health Insurance is slated to be phased in over a five-year period, and plans to begin offering coverage to individuals and small businesses by July 1, 2004. Right now, the Dirigo Health Board is working to develop the benefit package, eligibility requirements, and mechanisms for subsidization (some individuals and families will be eligible for state subsidies to purchase insurance, based on their incomes). It is also completing and will distribute a request for proposal for insurance carriers to offer the insurance product.

Paying For Dirigo Health Insurance

Dirigo will incur a number of costs, namely premium subsidy payments, the Medicaid (MaineCare) eligibility expansions approved in the Dirigo legislation (estimated at 78,000 new Medicaid-eligible people), the Maine Quality Forum, and necessary administrative costs. Some of those costs will be paid for by the one time appropriation of \$53 million provided under the federal Jobs and Growth Tax Relief Reconciliation Act of 2003, PL 108-27. The remainder will be paid by employee and employer premium payments, federal Medicaid matching funds, and, beginning July 1, 2005, a new assessment on health insurance companies and self-insured businesses, referred to as the savings offset payment.

To maximize federal Medicaid support for Dirigo and to cover the costs of the new Medicaid expansions, the plan framers assume that many

The Dirigo Reform Framework



Ensuring that all Mainers have health insurance coverage and making positive changes in health system reform are the laudable goals of the Dirigo Health Plan. With its focus on keeping health care affordable, improving access to care by all, and enhancing the quality of care, the passage of the Dirigo legislation was a momentous occasion for the State and people of Maine.

While enactment of such sweeping legislation was in itself a remarkable feat, a lot more work needs to be done to meet the goals established for Dirigo. This means making sure we all have a common understanding what Dirigo is and isn't, and what it can and cannot do. It's important that we all recognize that the Dirigo law is a framework for reform with all the details now being developed by a number of boards, commissions, and councils. Even the Governor, in passage of the bill, noted that the "work of implementing the bill is considerable...it will take time to get the important details right."

MHA and Maine hospitals are committed to working with the Administration, the Dirigo Health Board, the commissions, and Legislature to improve access to high quality health care. If implemented appropriately, Dirigo can make some of the improvements needed in the areas of coverage of the uninsured, cost containment, and the provision of quality information. One of MHA's primary objectives throughout this process, is making sure that this happens without unduly harming the very system Maine looks to in order to care for the people for which coverage is being expanded.

This edition of Maine's Healthcare is devoted to Dirigo. It offers an overview of the plan and its key components including the insurance coverage plan, the key players involved in Dirigo, and health system reforms.

Sincerely,

Steven R. Michaud
President, Maine Hospital Association

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Making Dirigo Work: The Players

dirigo facts

Dirigo Health Insurance: Who is Eligible?

- ▶ Maine residents under the age of 65
- ▶ Initial focus on enrollment of small business (fewer than 50 employees), self-employed, and individuals
- ▶ Those with incomes below \$55,000 for a family of four are eligible for sliding scale payments to help afford premiums
- ▶ Enrollment phased in: year 1, 31,000 uninsured are target; year 5, potential participation of larger businesses

In order to succeed as proposed, the Dirigo insurance plan depends on the cooperation and participation of a number of players. Those players are the insurance companies, employers, employees, the Dirigo Board and health care providers.

First, the Dirigo Board must develop a plan that can be marketed effectively to the eligible employers and individuals. The Dirigo Board of Directors must then issue a request for proposals (RFP), giving insurance companies the chance to bid on the contract. As of this writing, the Dirigo board has not yet developed the insurance product or the RFP.

An insurer such as Aetna must be willing to participate. Dan Fishbein, MD, general manager of Aetna and chairman of the Maine Association of Health Plans, based in Portland, isn't sure if his company will submit a proposal. "If the terms are reasonable and make business sense then we'll likely be participants," he said. "It all depends on whether the terms in the RFP make sense."

For eligible employers like Doug Newman, owner of Concrete Services in Hallowell, it's all about the details. Newman's current experience in providing and paying for health insurance coverage for his employees has pro-

vided him with an interesting perspective about the difficulty of making all the important pieces come together under Dirigo. Currently Newman offers his employees health insurance. In fact, he requires that his employees participate in the plan and pay \$17 a week towards coverage—a relatively modest amount considering the cost of



coverage these days. Nevertheless, he has had employees quit because they didn't want to pay even that amount toward coverage, opting instead to work for companies that don't offer insurance. "The question is whether Dirigo can develop a plan as promised that is more affordable than the current commercial plans available today," Newman said. "We don't think that Dirigo can ever get their price low enough especially with the employer premium requirements for employees and their families."

Health care providers like St. Mary's Regional Medical Center in Lewiston support improving access to affordable health insurance coverage. St. Mary's CEO James Cassidy, who is also chair of the Maine Hospital Association Board of Directors, emphasized that hospitals absolutely support affordable coverage. "Our concern is that any new plan not undermine existing affordable insurance plans like Medicaid and the private insurance system," Cassidy said. "Any plan that fails to pay for the full cost of caring for patients will only make the insurance affordability crisis worse."

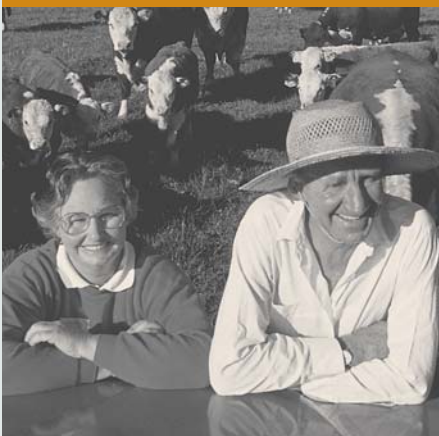
Hospitals are supportive of the legislation's cost containment strategies, which will benefit all patients, no matter who their insurer. Ultimately, Dirigo's framers expect to see hospital's bad debt and charity care costs drop, meaning those costs will no longer have to be passed along to other patients.

"Our commitment remains to heal the sick and injured," Cassidy continued. "Thanks in large part to hospitals, health care in Maine is among the best in the nation. We want to ensure that Maine people are able to access it no matter where they live or work."

dirigo facts

Dirigo Health Insurance: What are the Dirigo Insurance Benefits?

- ▶ Comprehensive health coverage
- ▶ Disease management
- ▶ Health promotion and wellness initiatives
- ▶ Quality information and improvement



What is Dirigo? Continued from page 1

Dirigo eligible employers employ individuals who are eligible for Medicaid under the new expansions.

According to the Legislature's Office of Fiscal & Program Review, for the plan to be financially viable, the funding of Dirigo and the Medicaid expansions depends upon slightly more than 80 percent of Medicaid Dirigo participants enrolling through their

employers. In fact, Dirigo counts on employers paying insurance premiums for these Medicaid eligible employees. Those premiums would be used to leverage matching federal Medicaid money to support the insurance coverage provided through Dirigo and to pay for the Medicaid expansions that become effective on July 1, 2004.

In the second year of Dirigo, the Legislature's Office of Fiscal & Program Review projected more than \$111 million in federal Medicaid revenue to support the anticipated costs of Dirigo and the Medicaid expansions.

The examination of the program's costs and funding prepared by that office stated, "Without continued employer participation, Dirigo Health would increasingly be forced to rely on the health insurance assessment to fund the MaineCare eligibility

expansions." The Legislature's fiscal office argued that "because of the importance of the employer contribution as the financing mechanism for both the MaineCare and non-MaineCare enrollees, *any reduction in employer participation from assumed levels could also threaten the financial viability of the plan and may require a reduction in coverage* (emphasis added)—both in eligibility levels and the benefit plan."

To participate in Dirigo, employers will pay up to 60 percent of the insurance premium for their employees and their dependents.

The financial viability of Dirigo, the impact on commercial health insurance premiums, and the potential for unbudgeted Medicaid expenses in the state budget will be key considerations during Dirigo implementation.

DIRIGO FISCAL NOTE

LD 1611, An Act to Provide Affordable Health Insurance to Small Businesses and Individuals and to Control Health Care Costs

Fiscal notes are brief descriptions of the effect of a bill or amendment on the finances of Maine State Government.

SOURCE: OFFICE OF FISCAL AND PROGRAM REVIEW

FEDERAL EXPENDITURES FUND

(Federal Medicaid match leveraged using employer premium payments)

REVENUE	03-04	04-05	05-06*	06-07*
	\$973,188	\$47,487,284	\$111,313,873	\$161,845,977

OTHER SPECIAL REVENUE FUNDS

(Employer premium payments, insurance TPA assessments SOP)

REVENUE	03-04	04-05	05-06*	06-07*
	\$973,188	\$47,487,284	\$111,313,873	\$161,845,977

*PROJECTED

Health Systems Reform: Planning for the Future

Dirigo Health is examining or proposing reforms that affect virtually all aspects of Maine's health care system. The emphasis is not only on trying to create a rational plan for the entire State, but on cost containment strategies designed to improve health care affordability.

One of the core components of Dirigo's health reform scheme is developing a state health plan designed to connect resources with public health goals. The plan is expected to set explicit, measurable goals to address cost, quality, and access. A Capital Investment Fund is also created, which places all health system capital expenditures on a "budget." As part of the planning and capital allocation process, the State's Certificate of Need (CON) process, which approves construction of health care facilities and acquisition of technology, was expanded to include ambulatory surgery centers and physician's offices (previously Maine's CON law applied to only hospitals and nursing homes). And, while the State Health Plan is being developed—it's scheduled to be completed by November 1, 2004 (this has been extended from the initial completion date of May 1, 2004)—a one-year moratorium was placed on any, except emergency, CON applications.

The large majority of other Dirigo system reforms focus on costs and finding ways to contain costs. Major cost containment initiatives enacted as part of Dirigo include:

- ▶ *creating a Commission to study Maine's hospitals and examine hospital costs,*
- ▶ *placing voluntary cost and growth limits on hospitals, insurers and other practitioners,*

- ▶ *requiring that hospitals maintain a list of the average prices of the most common inpatient and outpatient procedures,*
- ▶ *regulating premium increases by requiring small group health plans to submit to the State Insurance Department rate filings for review and approval and strengthening oversight of the large group market.*

The Hospital Study Commission, whose report is due by November 1, 2004, is studying the comprehensive role of Maine's hospitals and evaluating them in the context of the state health plan priorities; collecting and evaluating data on overall hospital expenditures, cost efficiencies, the availability of health care services; and determining opportunities and public policies to advance changes in hospital roles to encourage collaboration and improve affordability. Work is already underway.

The core of Dirigo's initial cost containment efforts are really the limits on growth and increases in health care costs. Insurers are being asked to limit their underwriting gain (after federal taxes) to 3 percent and other practitioners are being asked to limit growth of net revenue to 3 percent. Maine's not-for-profit hospitals are being asked to limit expenses per case mix adjusted discharge to increases of 3.5 percent and operating margins to 3 percent.

Virtually all the hospitals in Maine have budgeted to meet the 3.5 percent cap and are keeping their operating margins at less than 3 percent.

"The community trustees, management teams, and medical staffs of these hospitals deserve great credit for making the difficult decisions nec-



essary to meet that goal," said Bill Caron, president of MaineHealth, when announcing in September that four of the five member hospitals had met those goals. The fifth hospital, Maine Medical Center had a slightly higher increase because of two technological advances in cardiac care.

For years now, hospitals have been working on efficiency initiatives both individually and with other hospitals and health care providers. They are engaged in initiatives in which they share administrative functions in areas like technology and financial operations. Hospitals are also collaborating in the hiring of physicians and improving prevention and other community health programs and projects. Local and regional collaborations, designed to reduce costs and enhance hospital efficiency, are underway throughout Maine.

Dirigo's framers emphasize the importance of both health reform and cost containment. Maine's hospitals are committed to meeting Dirigo's goals and are diligently working together to fulfill them.

dirigo facts

Dirigo Health Insurance: What's the Process?

By July 1, 2004:

- ▶ Dirigo Health Board to develop benefit package, eligibility requirements, mechanisms for subsidization, and other specifications for Insurance
- ▶ Dirigo Health must initiate and complete RFP process for carrier to offer Dirigo Health Insurance Product

July 1, 2004 to October 1, 2004:

- ▶ Dirigo Health Insurance begins offering coverage to individuals and small business
- ▶ Expansion of MaineCare contingent of operation of Dirigo Health

October 1, 2004 through January 1, 2005:

- ▶ Dirigo Health Board must begin quarterly reports to Governor and Legislature re: Dirigo Health enrollment and operation

April 2005

- ▶ Determine aggregate measurable savings in bad debt and charity care costs as result of Dirigo Health and expanded MaineCare as basis for savings offset payments

July 1, 2005

- ▶ Establish and begin collecting savings offset payments from health insurance carriers, employee benefit excess insurance carriers, and third-party administrators

January 1, 2006

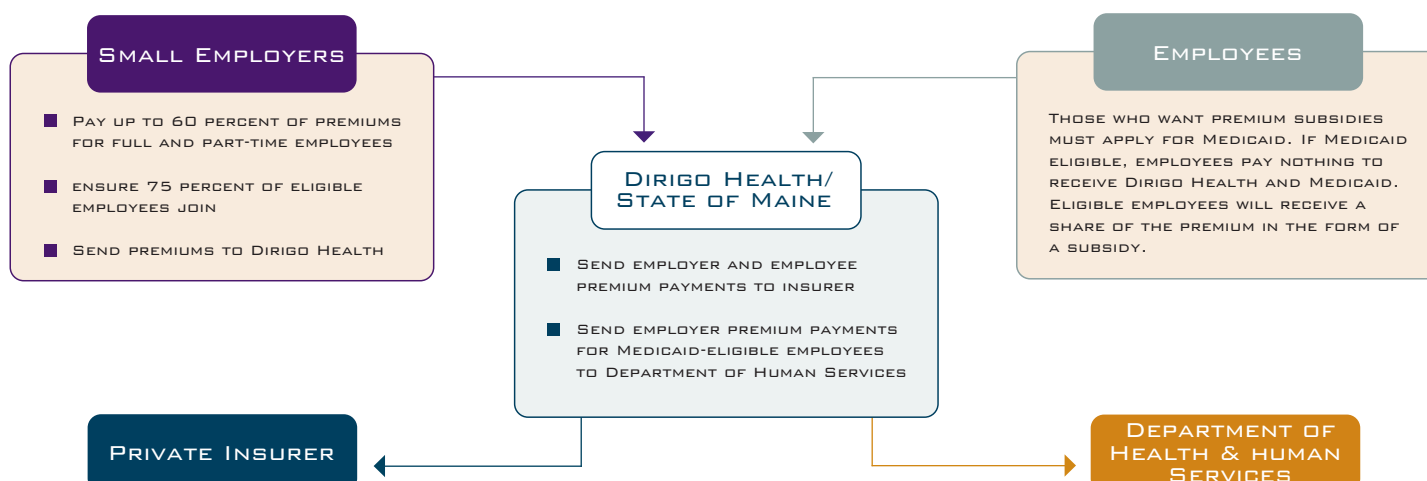
- ▶ Report disease management protocols, procedures, and mechanisms used to provide services to enrollees in high-risk pool

July 1, 2009

- ▶ All Maine's uninsured residents expected to have health insurance coverage—through Dirigo or other sources

(Source: Office of Policy and Legal Analysis)

How Dirigo Health Insurance Plan Premiums Will Work



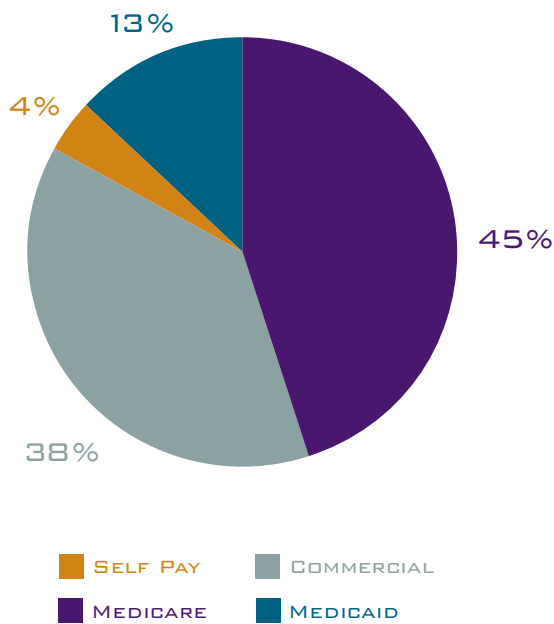
The Dirigo Health Insurance Plan will rely on premiums paid by employers and their employees.

Healthwatch Data Bank

A look at hospital care in Maine

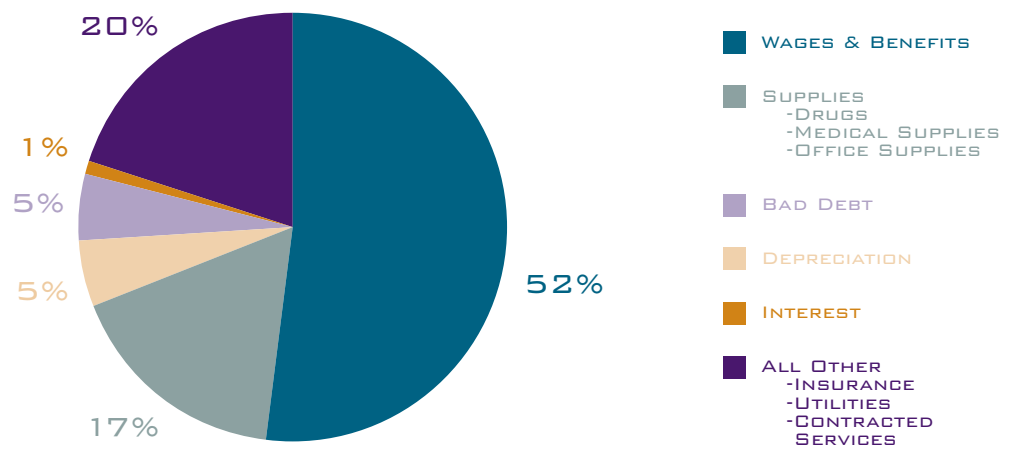
Where the Money Comes From

Hospital Utilization by Payer

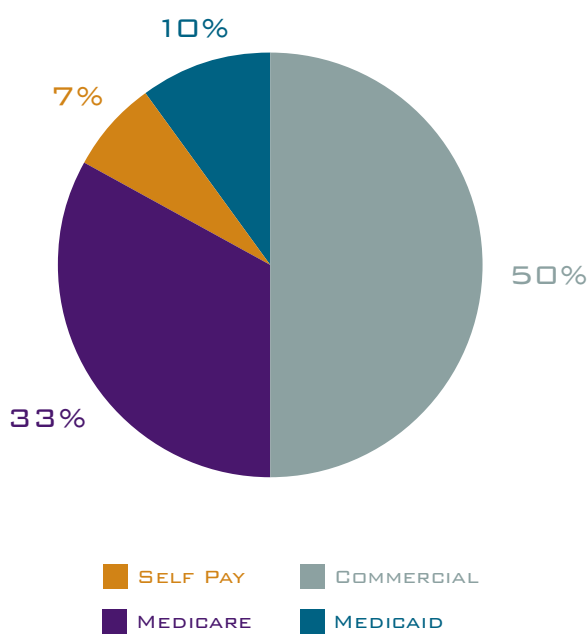


Where the Money Goes

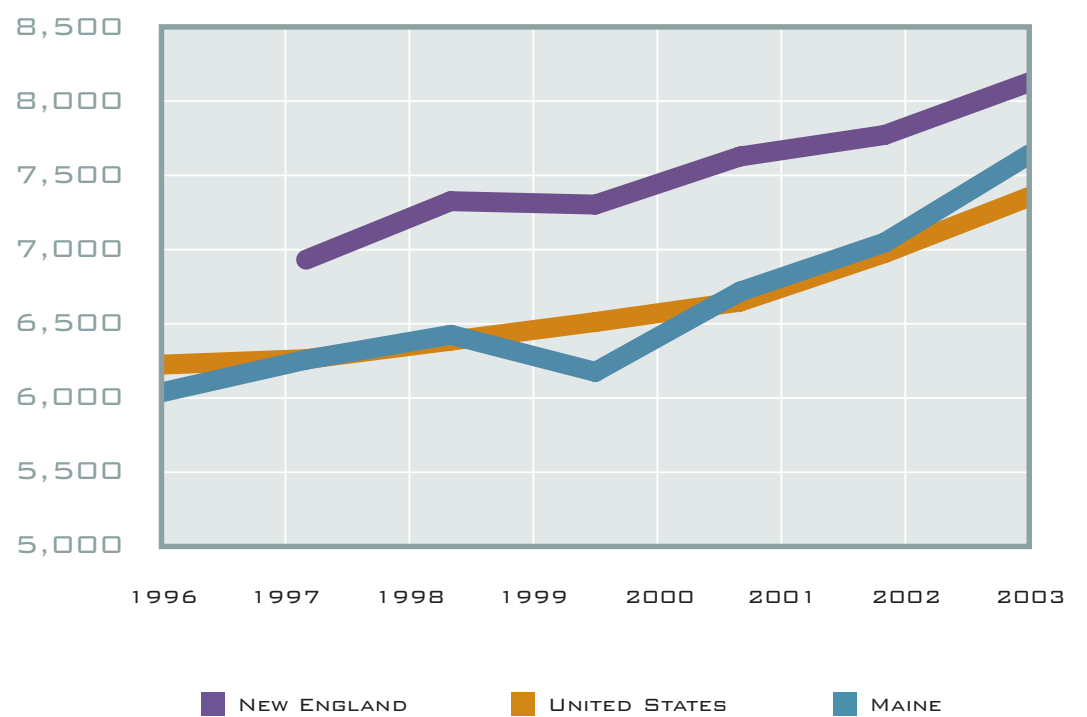
Hospital Budget Breakdown



Hospital Payments by Payer



Expense Per Adjusted Admission Inpatient/Outpatient



MHA Member Hospitals

The Acadia Hospital
Bangor

The Aroostook Medical Center
Presque Isle

Blue Hill Memorial Hospital
Blue Hill

Bridgton Hospital
Bridgton

Calais Regional Hospital
Calais

Cary Medical Center
Caribou

Central Maine Medical Center
Lewiston

Charles A. Dean Memorial Hospital
Greenville

Down East Community Hospital
Machias

Eastern Maine Medical Center
Bangor

Franklin Memorial Hospital
Farmington

Goodall Hospital
Sanford

Houlton Regional Hospital
Houlton

Inland Hospital
Waterville

MaineGeneral Medical Center
Augusta/Waterville

Maine Coast Memorial Hospital
Ellsworth

Maine Medical Center
Portland

Mayo Regional Hospital
Dover-Foxcroft

Mercy Hospital
Portland

Mid Coast Hospital
Brunswick

Miles Memorial Hospital
Damariscotta

Millinocket Regional Hospital
Millinocket

Mount Desert Island Hospital
Bar Harbor

New England Rehabilitation Hospital
Portland

Northern Maine Medical Center
Fort Kent

Parkview Adventist Medical Center
Brunswick

Penobscot Bay Medical Center
Rockport

Penobscot Valley Hospital
Lincoln

Redington-Fairview General Hospital
Skowhegan

Rumford Hospital
Rumford

St. Andrews Hospital
Boothbay Harbor

St. Joseph Hospital
Bangor

St. Mary's Regional Medical Center
Lewiston

Sebastcook Valley Hospital
Pittsfield

Southern Maine Medical Center
Biddeford

Spring Harbor Hospital
Westbrook

Stephens Memorial Hospital
Norway

York Hospital
York