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August 13, 2013

Iowa Department of Human Services  
Bureau of Managed Care and Clinical Services  
Attention: Jennifer Vermeer  
100 Army Post Road  
Des Moines, IA 50315

**RE: Iowa Marketplace Choice Plan 1115 Waiver Application Budget Neutrality - DRAFT**

Dear Ms. Vermeer:

Milliman, Inc. (Milliman) was retained by the State of Iowa, Department of Human Services (DHS) to assist in the development of the 1115 waiver filing associated with the Iowa Marketplace Choice Plan. The Iowa Marketplace Choice Plan 1115 waiver request in concert with the Iowa Wellness Plan 1115 waiver request replace the Iowa Care 1115 waiver demonstration which expires December 31, 2013. DHS is planning to submit a five-year waiver request effective January 1, 2014. The initial waiver request aims to fill the coverage gap in the post 2014 healthcare environment by extending coverage to non-pregnant, non-medically frail individuals between 19 and 64 years of age who are between 101% and 133%<sup>1</sup> of the federal poverty level (FPL) based on Modified Adjusted Gross Income (MAGI) and not currently eligible for comprehensive Medicaid or Medicare coverage. Milliman was requested to prepare the budget neutrality filing materials associated with the waiver renewal filing.

**LIMITATIONS**

The information contained in this letter and the attached model has been prepared for the State of Iowa, Department of Human Services (DHS), to assist with submitting financial information associated with the 1115 Iowa Marketplace Choice Plan waiver to the Centers for Medicare and Medicaid Services (CMS). 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.

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<sup>1</sup> With the 5% of FPL disregard, individual up to 138% of FPL may be eligible

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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 DHS 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.

Milliman has relied upon certain data and information provided by the State of Iowa, Department of Human Services and their vendors. The values presented in this letter are dependent upon this reliance. To the extent that the data was not complete or was inaccurate, the values presented in our report will need to be reviewed for consistency and revised to meet any revised data.

Differences between our projections and actual amounts depend on the extent to which future experience conforms to the assumptions used in this analysis. It is certain that actual experience will not conform exactly to the assumptions used in this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from projected experience.

The services provided for this project were performed under the signed contract (MED-07-028) between Milliman and DHS, which was most recently extended on May 13, 2013.

### **EXECUTIVE SUMMARY**

The State of Iowa is filing two new waiver requests to replace the Iowa Care 1115 waiver demonstration that ends on December 31, 2013. The waiver requests are for the maximum allowable time of five years (2014-2018).

The waiver period corresponds with the availability of advance premium tax credits (APTC) authorized by the Patient Protection and Affordable Care Act (ACA beginning January 1, 2014). The waiver will fill in the coverage gap for non-medically frail Iowans between 19 and 64, with income from 101% up to and including 133% of FPL, who do not currently qualify for Medicaid or Medicare. The individuals potentially eligible for the Iowa Marketplace Choice Plan have two potential coverage options:

1. Premium Assistance of Employer Sponsored Insurance (ESI) Health Plans – For individuals with access to ESI, the State will determine if the ESI is cost-effective. Premium assistance will be provided for individuals with access to cost-effective ESI under the state's existing Health Insurance Premium Payment (HIPP) program.
2. Premium Assistance for Exchange Plans – For individuals between 101% and 133% of FPL, without access to cost-effective ESI coverage, the Iowa Health and Wellness waiver will leverage the private market by providing premium assistance for plans offered through Exchanges or Marketplaces.

For each Demonstration Year (DY), the following table illustrates the total “With Waiver” amounts.

Calendar Year	Demonstration Year	Without Waiver Expenditures	With Waiver Expenditures	Waiver Margin
2014	1	N/A	\$ 137,433,736	N/A
2015	2	N/A	\$ 204,660,842	N/A
2016	3	N/A	\$ 212,798,756	N/A
2017	4	N/A	\$ 221,259,419	N/A
2018	5	N/A	\$ 230,054,896	N/A
2014-2018	DY 1-5	N/A	\$ 1,006,207,648	N/A

Provided with this letter is the Excel file version of the waiver Cost Effectiveness materials.

The following outlines the key assumptions and development associated with the waiver cost effectiveness filing.

1. **Baseline Budget Neutrality Model.** We have utilized the budget neutrality model Excel workbook provided by CMS for Milliman’s work with another state. We have updated and revised the model for the Iowa Marketplace Choice Plan.
2. **Enrollment.** The Iowa Marketplace Choice Plan is targeted at the Adult Group, those non-medically frail individuals<sup>2</sup> who are between 19 and 64 years of age and currently not eligible for comprehensive Medicaid under an existing Iowa Medicaid group, who are not eligible for Medicare and who have income from 101% to 133% of FPL based on MAGI. The Adult Group consists of:
  - a. Iowa Care members with incomes from 101% to 133% of FPL
  - b. Currently uninsured individuals with incomes from 101% to 133% of FPL
  - c. Individuals without access to cost effective employer sponsored insurance and incomes from 101% to 133% of FPL
  - d. Individuals from 101% to 133% of FPL that drop individual health coverage (Crowd Out)
  - e. Individuals with incomes from 101% to 133% of FPL currently enrolled in Iowa’s state funded Dependent Persons Program
3. **Historical Enrollment.**
  - a. Iowa Care 101% to 133% of FPL. The Iowa Care enrollment was summarized from the state’s eligibility file for each calendar year. Only those with income between 101% and 133% of FPL were included.

<sup>2</sup> Individuals meeting the medically frail requirements (defined at 42 CFE 440.315(f)) will be given a choice of enrolling in Medicaid State Plan coverage, or the coverage option described above which they qualify for.



- b. Dependent Persons from 101% to 133% of FPL. The enrollment was summarized from the state's eligibility file. Only those with income between 101% and 133% of FPL were included.

#### **4. Projected Enrollment.**

It is estimated that all of the individuals currently enrolled in the IowaCare program at incomes from 101% up to and including 133% of FPL will enroll in the Iowa Marketplace Choice Plan demonstration unless they are medically frail; their take-up rate will be 100% as of 2014. IowaCare enrollees will be transitioned to the new program and outreach will be conducted to explain the new program components. Enrollment of the eligible population from 101% to 133% of poverty level that is not currently enrolled in IowaCare is expected to ramp up over two years with 60% of the potential enrollees joining in the first year and 30% joining in the second year; it is estimated that 10% of those potentially eligible for the Iowa Marketplace Choice Plan demonstration will choose not to enroll. For years 2015 through 2018, enrollment is projected to additionally increase at a natural growth rate of 1.5%.

Estimated enrollment in the Marketplace Choice Plan assumes that for the population with incomes from 101% FPL up to and including 133% FPL, 50% of the IowaCare population and 14% of other eligible populations will be determined to be medically frail. All individuals determined to be medically frail will be enrolled in Iowa's Wellness Plan and will not be eligible for the Iowa Marketplace Choice Plan. Estimates of the numbers of individuals who will enroll by year in the Marketplace Choice Plan are contained in Table 2 below. Though they will not be enrolled on the Iowa Market Place Choice Plan, this table also provides estimates for the individuals with incomes from 101% FPL up to and including 133% FPL that will become eligible for the HIPP program due to the implementation of Iowa Health and Wellness Plan.

#### **5. Historical Costs.**

- a. Iowa Care 101% to 133% of FPL. Historical Iowa Care costs were based on claim files for each of the calendar years. Iowa Care is a limited benefit program. Estimated administrative costs were added.
- b. Dependent Persons 101% to 133% of FPL. Historical costs were based on claim files for each of the calendar years. Estimated administrative costs were added.

#### **6. Projected Costs – Without Waiver.**

Projected without waiver cost are not available nor applicable for this population under the Marketplace Choice Plan which is consistent with existing CMS guidance on.

#### **7. Projected Costs and Value– With Waiver.**

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The Iowa Marketplace Choice Plan demonstration utilizes the Secretary Approved 1937 coverage option for individuals at 101% to 133% of FPL without cost-effective ESI coverage. Individuals from 101% to 133% of FPL without cost-effective ESI coverage will have access to the State's commercial essential health benefit package through the Exchange or Marketplace plans. As required at 42 CFR 440.315(f), individuals identified as medically frail will be enrolled in the Iowa Wellness Plan where they will be defaulted to State Plan coverage but have the option to opt out and elect the alternative benefit plan coverage.

Waiver of the requirements to offer non-emergency transportation services and Early Periodic Screening, Diagnoses, and Testing (EPSDT) services to individuals between the ages of 19 and 21 are being requested to standardize the benefit package for enrollees. Dental benefits will be offered through the Exchange or Marketplace, ESI plans, or, if not available, through a plan negotiated by the State.

For individuals with access to cost-effective ESI, the individual will be eligible to have their portion of premiums paid by the existing HIPP.

Individuals between 101 and 133% of FPL that do not have access to cost-effective ESI coverage will be eligible to select a health plan from the Exchange or Marketplace. This would be a commercial market qualified health plan offering the commercial essential health benefit package.

The State will make capitated payments to the Exchange or Marketplace health plans and ESI health plans.

Projected "With Waiver" costs are based on the anticipated cost, of insurance in Iowa Marketplace

The innovations in the Marketplace Choice Plan include participant wellness incentives and the utilization of private health care coverage options.

The provision of premium assistance for the Marketplace Choice Plans is cost-effective, improves access to care, and reduces the impact of churn

In implementing these innovations, Iowa anticipates advantages of the Marketplace Choice Plan around access, enrollee churn, and cost, will result in the long term cost-effectiveness of the Marketplace Choice Plan 1115 Demonstration.

#### **Access**

- Not only will Marketplace Choice Plan participants have greater access to health care providers than they would have in traditional fee-for-service Medicaid coverage due to increased reimbursement for providers but they

will not restrict the access to care of existing and future Medicaid recipients who must use Medicaid providers.

- Marketplace Choice Plan participants will have similar access to health care providers as others who are insured through the private market at fees that are generally higher than Medicaid fees. This will make the state more attractive for healthcare providers. An increased supply of healthcare providers has also been shown to improve access and health status.
- Due to their increased access, Marketplace Choice Plan participants will be able to more easily obtain preventive care services leading to better health status and lower long term health costs than otherwise.
- Marketplace Choice Plan participants with this increased access to providers will have decreased utilization of emergency department services as compared to Medicaid beneficiaries in traditional fee-for-service coverage.

#### **Churn**

- The use of the Marketplace for individuals who are at higher income percentages of MAGI will result in lower Medicaid administrative costs due to a reduction in the rate of churn, (beneficiaries moving from one program to another).
- Participants will experience fewer gaps in insurance coverage than traditional Medicaid beneficiaries since that they can remain in the same Marketplace health plan accessing the same providers even if their income increases and they are no longer eligible for the Marketplace Choice Plan.

#### **Cost**

- The use of the Marketplace Choice Plan for individuals who are at the higher qualifying incomes will result in savings in both administrative and medical expenditures over the lifetime of the demonstration.
- The provision of premium assistance for Marketplace QHPs and bringing more lives to the Marketplace resulting in increased competition in the private health insurance market leading to lower costs for all Iowans.
- The incentive program that reduces cost sharing in subsequent years will result in increased preventive care, other disease prevention, and health promotion activities, which will result in lower health costs and improved health status.
- The implementation of the Marketplace Choice Plan will lead to low uncompensated care costs for healthcare providers allowing them to lower their cost per service leading to lower overall cost per person.





Ms. Jennifer Vermeer  
August 13, 2013

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.

Please do not hesitate to contact us if you have any questions regarding the enclosed information. You may contact me at (314) 231-3031.

Sincerely,

Timothy F. Harris, FSA, MAAA  
Principal & Consulting Actuary

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