Health Care Independence Program: Premium and Cost-Sharing Reduction Breakdown

ACHI
Arkansas Center for Health Improvement

Supplemental Fact Sheet

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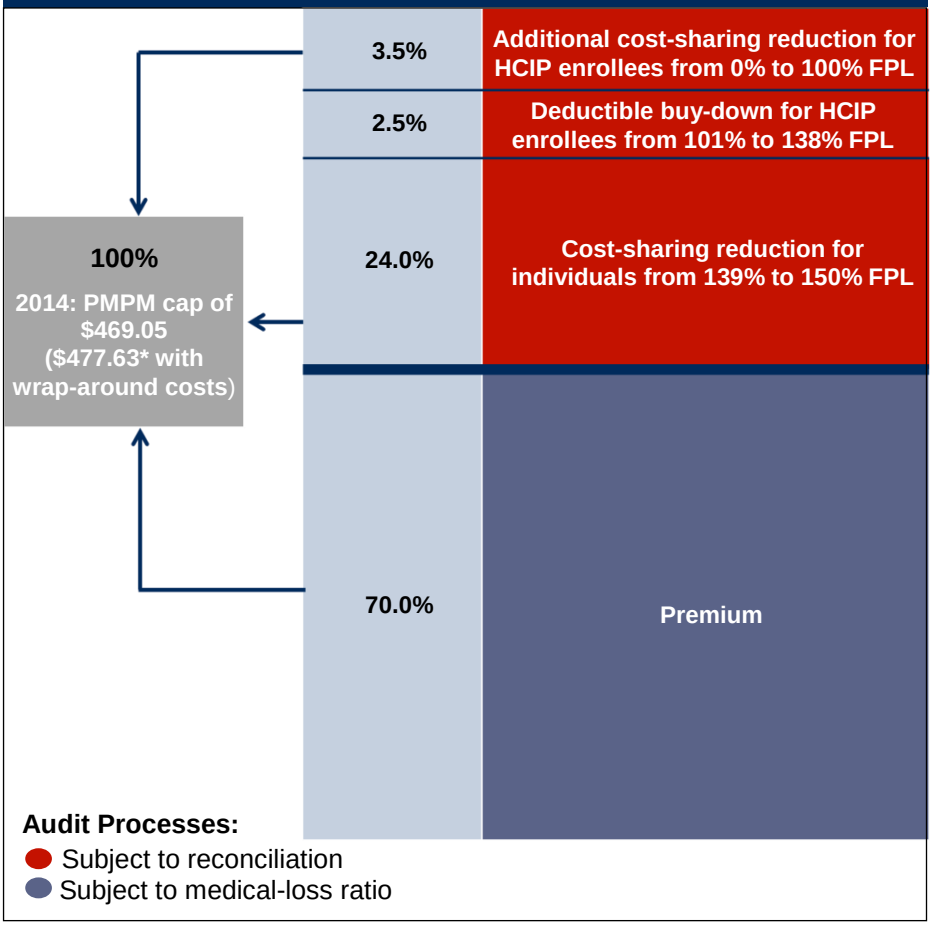
Qualified health plans must be certified with a standard benefit to be offered through the health insurance marketplace. Plan certification requires an assessment of a plan's actuarial value for the various levels of marketplace coverage represented by metal tiers—bronze, silver, gold, and platinum. "Actuarial value" means the share of healthcare expenses covered for a typical group of enrollees. For example, a silver marketplace plan has an actuarial value of 70 percent, which means that the plan covers 70 percent of healthcare expenses. The remaining 30 percent is covered by the enrollee through cost sharing, which is inclusive of deductibles, copays, and coinsurance. Federal law limits the amount of cost-sharing exposure for low-income individuals. Individuals with incomes at or below 250 percent of the federal poverty level (FPL) may receive financial assistance with cost sharing in addition to premium subsidies. The limit on an individual's cost-sharing exposure has the effect of increasing the actuarial value of the plan. Federal law similarly limits cost-sharing exposure for Medicaid beneficiaries. This is reflected in the state's enabling law for the Health Care Independence Program (HCIP) authorizing the purchase of "high-value silver plans" for program enrollees. Figure 1 below depicts the actuarial value of plans purchased by the state for HCIP enrollees at various income levels; the relationship of plan actuarial value—inclusive of premium and cost-sharing assistance—to HCIP budget neutrality; and the audit processes required to ensure that a sufficient portion of premium dollars went to medical costs and that there are no discrepancies between cost-sharing reduction payments paid in advance and actual plan costs experienced. For more information about HCIP budget neutrality, see the April 2015 fact sheet titled "Health Care Independence Program and Budget Neutrality" at www.achi.net.

Health Care Independence Program (HCIP) Definitions

- *Budget neutrality cap:* per-member per-month cost threshold over the period of the waiver
- *Cost-sharing reduction (CSR) payments:* payments to carriers to reduce out-of-pocket costs for beneficiaries to required Medicaid cost-sharing levels
- *Premiums*: amount paid for the insurance plan
- *Wrap-around costs*: costs for required services directly covered by Medicaid (e.g., non-emergency medical transportation
- *Per-member per-month (PMPM):* sum of premiums, CSR payments, and wrap-around costs divided by the number of HCIP enrollees
- *Medical-loss ratio (MLR):* requires carriers to rebate payers if less than 80 percent of premiums are spent on medical care only and more than 20 percent on administration
- *Reconciliation:* process of assessing the difference between the CSR payments and the actual costs

Figure 1: HCIP Premium and Cost-Sharing Reduction Breakdown



* Actual PMPM cost in December 2014 was $489.18 (186,950 enrollees). The 2015 PMPM cap is $500.08 with an actual PMPM cost of $486.61 at the end of March 2015 (205,882 enrollees). Source: "Arkansas Health Care Independence Program Annual Cap." *Arkansas Department of Human Services*. Report run on April 28, 2015.

ACHI is a nonpartisan, independent, health policy center that serves as a catalyst to improve the health of Arkansans.

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