

HEALTH REFORM BRIEF

What the Supreme Court Ruling on Health Reform May Mean for Kansans



KANSAS HEALTH INSTITUTE

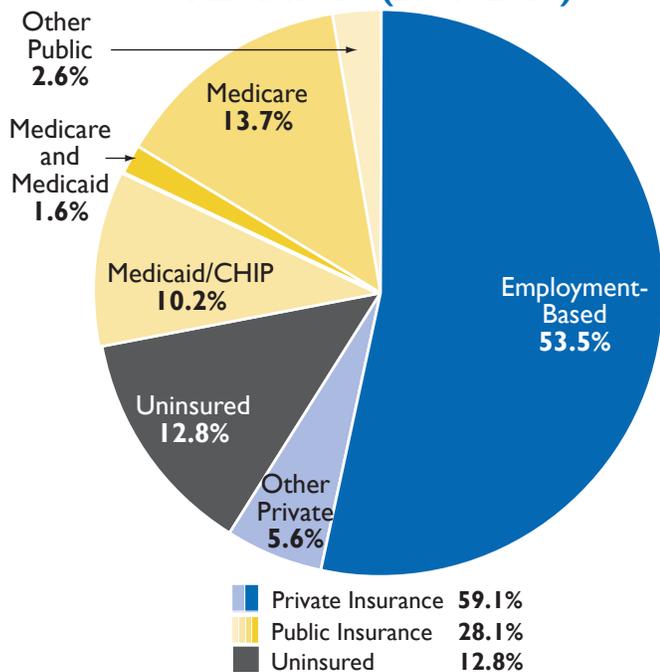
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INTRODUCTION

The Supreme Court's decision to uphold the Affordable Care Act (ACA), while altering just one of the primary provisions in the law, means Kansans will likely see more health care changes in the next few years. Although the ultimate fate of the ACA will depend on the November elections and actions of Congress, it has been deemed constitutional by the highest court and is standing federal law.

Several provisions of the ACA already have been implemented, affecting thousands of Kansans. In 2014, the law's most significant changes will roll out, touching every aspect of health care in Kansas. This brief outlines the impact of the ACA in Kansas by examining the changes that have taken place, the major changes ahead and the critical decisions before Kansas policymakers.

Figure 1. Sources of Health Insurance: All Kansans (2009–2010)



Notes: All Kansans: Approximately 2,751,000. Percentages may not sum to 100 percent because of rounding.

Source: KHI estimates are two-year averages based on the 2010 and 2011 Annual Social and Economic Supplements to the Current Population Surveys.

THE RULING

In ruling to uphold most of the ACA, the Supreme Court noted that the individual mandate is a valid exercise of Congress' power to tax. This means that in 2014, essentially all Kansans — with few exceptions — will be required to have health insurance or face a tax penalty. The law's numerous other provisions — including those that change the rules for health insurers, invest in public health programs, expand the health care workforce and fund research to find the most effective and efficient medical treatments — also will move forward.

The court's one adjustment was to the law's Medicaid expansion. The law required that states expand their Medicaid programs to include all non-elderly individuals with incomes up to 133 percent of the Federal Poverty Level — around \$30,000 annually for a family of four — or risk losing all federal funding for the program. The ruling limited that provision, making this significant Medicaid expansion optional for states.

PRIVATE HEALTH INSURANCE

Beginning in 2014, the ACA requires that insurers provide coverage to anyone who applies, regardless of whether the applicant has a pre-existing condition. The law further requires that insurers not charge disproportionately higher rates to people with medical conditions. Kansans who have group coverage, such as insurance through an employer, are already protected against these practices. However, for consumers who purchase coverage directly from an insurer in the individual market, these rules will be a major change. As shown in Figure 1 on page 1, the individual market (labeled “other private” coverage) is a relatively small share of Kansas consumers at 5.6 percent. While 2014 brings the most substantial changes, Table 1 shows some of the rules already in effect for health insurance consumers in Kansas.

The other major change in the private insurance market is the ACA’s creation of health insurance exchanges. An exchange is an online marketplace where individuals and small businesses can comparison shop for health insurance plans. The coverage offered through the exchange will be private coverage from companies like Blue Cross Blue Shield or Humana. However, the exchange is also where those who qualify can receive federal assistance to offset the cost of that coverage. As many as 158,000 uninsured Kansans will be eligible for this federal assistance in 2014. Kansans purchasing in the individual insurance market may opt to switch to exchange coverage, and many of them may qualify for subsidized coverage.

States had the option of creating state-based exchanges or ceding the responsibility for developing and operating them to the federal government. Kansas received a \$31.5 million federal grant to construct a state-based exchange, but Gov. Sam Brownback later ordered that money be returned. The Supreme Court’s finding that the ACA is constitutional brings back into question what type of health insurance exchange model would be most beneficial for Kansas. Although current timelines no longer give Kansas the option of a state-based exchange, they still allow other options to be considered, including a federal-state partnership.

KANSAS EMPLOYERS AND THE ACA

Kansas is a small-employer state with the vast majority of private employers employing fewer than 50 workers. In 2014, the ACA requires large employers — those with 50 or more full-time workers — to provide adequate and affordable coverage to their employees or risk financial penalties. The bulk of Kansas employers will be exempt from this rule. Of those large private employers who will be required to offer coverage, 97 percent already do so.

Starting in 2014, small-business owners who want to offer health insurance to their employees have the option of purchasing group coverage in the health insurance exchange. Those employers with fewer than 25 employees who choose to offer coverage through the exchange may be eligible for tax credits. Less than 40 percent of small private employers in Kansas currently offer coverage; it is hard to predict what impact the ACA will have on these business owners.

Table 1. Impact of the ACA Provisions Already in Place

Provision	Impact in Kansas
Dependent coverage up to age 26	As of June 2011, 22,000 young adult Kansans were covered through this provision, and that number has likely grown.
Preventive care at no cost to patient	As of March 2012, 529,000 Kansans in private plans have received free preventive care through this provision.
No lifetime limit on health insurance plans	As of March 2012, an estimated 1,021,000 Kansans no longer face lifetime limits. This includes 279,000 children, 368,000 men and 374,000 women.
Medical Loss Ratio (“MLR”) rules	For each dollar received in premiums, insurers must spend 80 to 85 cents on medical care or quality improvement rather than administrative costs or profit. If this threshold is exceeded, consumers receive rebates from the company. By August 2012, roughly \$4.2 million will be rebated to Kansas consumers, primarily those in the individual market.

Sources: Kaiser Family Foundation State Health Facts and HealthCare.gov

As shown in Figure 2, some provisions of the ACA have already affected Kansas employers.

THE ACA'S 'OPTIONAL' MEDICAID EXPANSION

The ACA originally required states to expand eligibility for their Medicaid programs to all non-elderly individuals with incomes up to 133 percent of the Federal Poverty Level — about \$30,000 for a family of four. The court's decision prohibiting the federal government from withholding Medicaid funding from states that do not comply has the effect of making the expansion optional. Of the approximately 351,000 uninsured Kansans, 151,000 could qualify for the expanded Medicaid program if Kansas implements it. Of those, an estimated 130,000 are low-income adult Kansans who today do not qualify for Medicaid and who would be made eligible by the expansion. Table 2 shows a breakdown of uninsured Kansans and how the ACA's federal subsidies and proposed Medicaid expansion would affect them.

As outlined in the ACA, for the first three years of the expansion, the federal government will pay for 100 percent of the costs of covering the newly eligible Medicaid population. That federal contribution declines to 90 percent by the year 2020, with the state picking up the remaining 10 percent.

OTHER ACA IMPACTS

The Affordable Care Act is an enormous piece of legislation that touches on every aspect of the health care system. Not only does it significantly change the health insurance market, it also alters health care delivery and payment systems. The law changes the way that Medicare pays providers and hospitals and uses the program as an incubator for testing new methods of care coordination and management. The ACA imposes new transparency requirements on health insurers and providers. Hospitals will be required to publish lists of their “standard charges,”

Figure 2. ACA and Kansas Employers

- Early Retiree Reinsurance Program: Offers federal payments to employers and unions who provide health insurance coverage to retirees who are not yet Medicare-eligible.
 - In Kansas: \$11.3 million paid, 62 employers and unions enrolled in program including Koch Industries, Sprint and the State of Kansas.
- Therapeutic Discovery Project Grants: Provides tax credits and grants to promising biotechnology and medical innovation projects.
 - In Kansas: Grants and tax credits awarded to 16 Kansas biotech and medical innovation companies.

Source: *Healthcare.gov*

Table 2. Uninsured Kansans and the Affordable Care Act

Income Level (family of four)	Number of Uninsured in Kansas (total = 351,000)	Impact of ACA
More than \$90,000	42,000	These individuals would not be eligible for premium tax credits though they are welcome to purchase in the health insurance exchange if they choose.
\$30,000–\$90,000	158,000 ¹	These individuals may qualify for premium tax credits for coverage purchased through the health insurance exchange.
Less than \$30,000	151,000 ¹	These individuals may qualify for Medicaid if the state adopts the ACA Medicaid expansion; these individuals are generally not eligible for premium tax credits through the exchange. ²

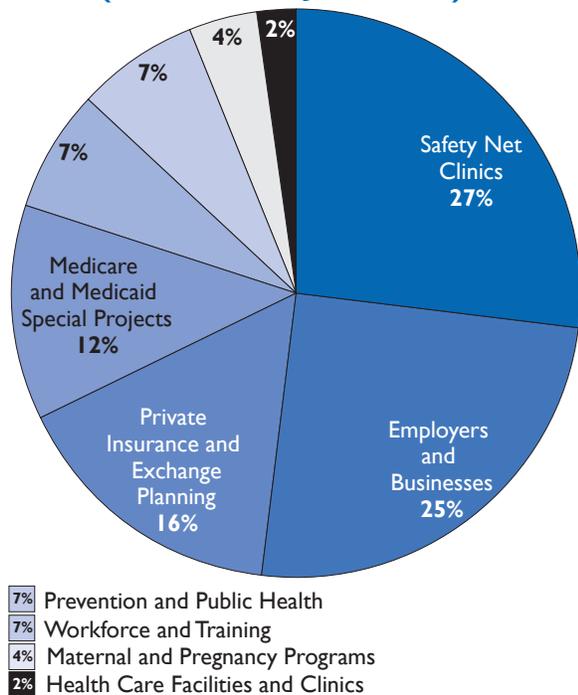
¹These figures include children who may be currently eligible for Medicaid or CHIP but are not enrolled.

²An inconsistency in the law may allow for some Kansans between 100 percent and 133 percent of FPL to qualify for federal assistance.

Note: For some who are eligible, cost-sharing subsidies are available in addition to the premium tax credits.

Source: *Current Population Survey data, 2009–2010*

Figure 3. ACA Funding to Kansas: \$88 Million (March 2010–June 2012)



Source: Kaiser Family Foundation ACA Federal Funds Tracker, June 2012.

and nonprofit hospitals have to demonstrate how they benefit the communities they serve to a greater extent than before. Kansas hospitals and providers already are adapting to the ACA's new landscape.

An often-overlooked portion of the law is the public health component. The ACA allocates funding to a host of public health initiatives, and

To offset this federal funding, the ACA includes several revenue-raising provisions, primarily taxes on health insurance, medical device and pharmaceutical companies, and individuals in the highest income brackets. A goal of the law's renewed focus on medical innovation and research is to identify the most effective and least costly treatment options so that health care dollars can be spent more wisely. The ACA's payment reforms focus on rewarding quality of care rather than quantity.

CONCLUSION

The Supreme Court's health reform ruling ends months of speculation and uncertainty, but it also raises key questions for Kansas policymakers.

Among the most pressing is the question about the Medicaid expansion. If policymakers choose not to comply with the eligibility changes called for in the law, an estimated 130,000 low-income adult Kansans may remain uninsured. The ruling also resumes the discussion of whether Kansas should develop a more state-focused model for a health insurance exchange.

These decisions ensure that the ACA will have a significant impact on Kansans.

Kansas has received thousands of these dollars. This funding includes grants for early childhood home visitation programs, family-to-family educational centers for those with special health care needs and school-based health clinics. Given the country's uncertain financial situation, the ACA's public health funding — and other funding pools — may be vulnerable. Congress has already reduced funding in several portions of the ACA, although Kansas has received millions in ACA funding for public health and other efforts to date as seen in Figure 3.



The Kansas Health Institute is an independent, nonprofit health policy and research organization based in Topeka, Kansas. Established in 1995 with a multi-year grant from the Kansas Health Foundation, the Kansas Health Institute conducts research and policy analysis on issues that affect the health of Kansans.

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More Information

This publication is the seventh in a series of briefs about the impact of health reform in Kansas. It is based on work done by M. Suzanne Schrandt, J.D. This document and the other briefs in the series are available at www.khi.org.

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