

# Implications of the Affordable Care Act on State Health Programs and Legislative Implementation



**CA Legislative Analyst's Office**

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Healthcare Financial  
Management Association  
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[www.lao.ca.gov](http://www.lao.ca.gov)



## Overview

- **Introduction**
- **State fiscal context**
- **Overview of the ACA and recent state legislation**
- **Analysis of potential impacts on state health programs and providers**
- **LAO advice to the Legislature**
- **Potential Legislative plans for next session**



# The LAO Is the “Eyes and Ears” of the Legislature

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As the Legislature’s nonpartisan fiscal and policy advisor, our general responsibilities include:

- Analysis of the Governor’s annual budget
- Budget “control”
- Forecasting state revenues and expenditures
- Member requests and special reports
- Fiscal impact analysis of initiatives and ballot measures



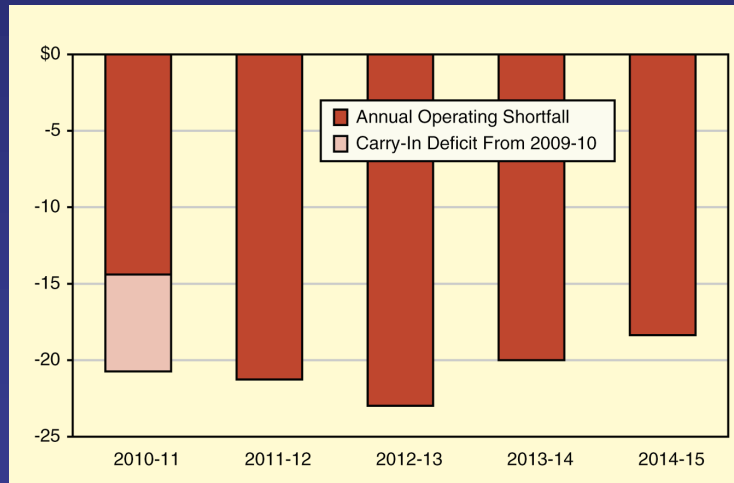
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## State Fiscal Context



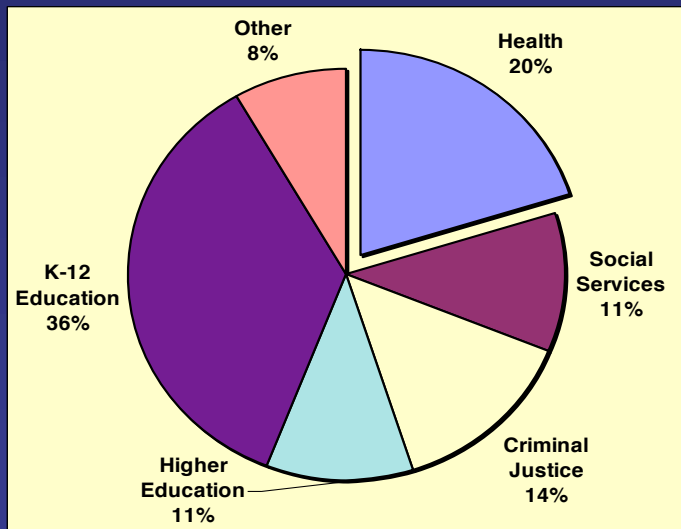
# Dire State Budget Situation

General Fund Operating Deficits (In Billions)



# Health is 20 Percent of State Budget

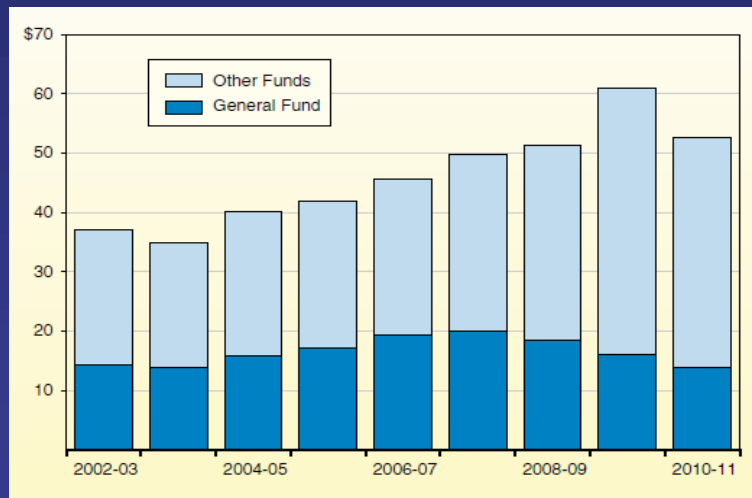
State General Fund Spending



# Overall Health Spending Trends

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In Billions



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## Overview of the ACA and Recent State Legislation



## **Overview of the Affordable Care Act (ACA)**

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- **Creates an individual mandate**
- **Establishes health benefit exchanges**
- **Provides subsidies to low income persons to obtain coverage**
- **Employer requirements**
- **Changes in private health insurance coverage**
- **Expands Medicaid**
- **Establishes new high risk insurance pool**



## **Major Legislative Action on Health Reform in Last Session**

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- **California's Pre-Existing Condition Insurance Plan (High Risk Pool)**
- **California Health Benefits Exchange**
- **Insurance market conformity statutes**
- **Renewal of 1115 Medicaid waiver**
- **Health information exchange (HITECH Act)**



## California's Pre-Existing Condition Insurance Plan (Cal-PCIP)

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- **Legislation establishes new state program**
  - SB 227 (Alquist) grants authority to create Cal-PCIP; defines responsibilities
  - AB 1887 (Villines) appropriates federal funding (\$761 m)
- **Rapid implementation**
  - Legislation chaptered June 29, 2010
  - New program created and opened for enrollment in September
  - Coverage likely to start late October



## California Health Benefits Exchange

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- **Legislation establishes exchange in CA**
  - SB 900 (Alquist) defines governance structure
  - AB 1602 (Perez) defines duties and responsibilities
- **Key points:**
  - Governed by an independent board
  - Exchange will be active purchaser
  - Will include subsidy and small group populations



## Insurance Market Conformity

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- **AB 2345 (De La Torre) preventive services**
- **AB 2470 (De La Torre) cancellation: rescission**
- **AB 2244 (Feuer) children with pre-existing conditions**
- **SB 1088 (Price) dependents**
- **SB 1163 (Leno) denials: premiums**



## Medi-Cal 1115 Demonstration Waiver Renewal

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- **Legislation provides framework for Medi-Cal 1115 demonstration waiver renewal**
  - AB 342 (Perez), AB 1628 (Blumenfield) and SB 208 (Steinberg)
- **Key features:**
  - Mandatory enrollment of seniors and persons with disabilities into managed care July 2011
  - Expansion of coverage for individuals not currently eligible for Medi-Cal



## Health Information Exchange

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- **Critical to improving health care delivery**
- **Federal HITECH Act spurred state action**
  - SB 337 grants authority for state level HIE
  - SB 583 (Committee on Budget and Fiscal Review) further defines legal framework



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## Analysis of Potential Impact on State Health Programs and Providers



## Implications for State Health Programs in the Near Term

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- **Federal maintenance of effort (MOE) requirements restrict budget flexibility**
- **Federal waiver could expedite expansion of Medicaid coverage**
- **New programs will generate additional federal health care funds**
- **Prescription drug rebates could be reduced**
- **Federal payments prohibited for health care acquired conditions**



## Long Term Implications for State Health Programs

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- **State Medicaid costs will increase**
  - Eligibility expansion
  - Woodwork effect
  - Provider rates
  - Eligibility processing changes
- **Reduction in federal hospital funding could affect some hospitals**
- **New exchange needs integration with other programs**
- **Cost savings from scaling down or eliminating state programs**
- **Certain populations will continue to be uninsured**



## Impacts on Providers

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- Expanded coverage will increase demand on providers
- Changes in provider reimbursement
- Changes in provider relationships and new funding opportunities
- Attention on quality improvement and outcomes
- Increased role of health information technology



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**LAO Advice to the Legislature:  
Think Broadly**



## Address Future Costs for Health Programs

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- Maximize receipt of federal funds, minimize use of General Fund
- Leverage state's purchasing power
- Consider revenue sources
- Reduce cost of care for high-cost individuals



## Structural Changes to State Health Programs Warranted

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- Opportunity to reexamine the structure and function of state's health care programs
- Modification, phase-out, or elimination of certain health care programs



## Reevaluation of the State-Local Relationship

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- Administration and financing of various health programs has evolved over time, reflects in part programmatic and fiscal circumstances from the mid-1970s
- Legislature should align program responsibilities and funding



## New Strategies Could Bolster Health Care Quality and Outcomes

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- Various grants and demonstration project opportunities available to address problems with health care system
- Legislature should evaluate the capacity of the state to successfully administer new programs and leverage opportunities



# Future Workforce and Health Infrastructure Needs Should Be Addressed

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- **Successful implementation of ACA will depend on state's response to access issues such as**
  - Workforce capacity pressure
  - Infrastructure including clinics and hospitals as well as technological resources and systems



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# Potential Legislative Plans for Next Session



## Issues for Legislative Consideration

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- How might state insurance laws and regulatory structures need to change?
- What administrative and systems changes may be necessary?
- What do you need to do to maximize federal dollars and choose strategic projects?
- What might take-up rates be of various coverage options?
- How might the implementation and design of exchange impact enrollment?
- What are long term capacity and access issues?
- Who is left out, and how are their needs addressed?



## Further Development of Existing Legislative Frameworks

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- Respond to federal guidance and regulations
- Develop state priorities including support of safety net providers
- Other “clean up” legislation



## Response to Other ACA Requirements and State Issues

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- Potential legislation on insurance conformity such as responding to requirements related reinsurance and risk adjustment
- Legislative interest in streamlining state functions such as the role of our dual insurance regulatory agencies



## Key LAO Documents and Contact

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Available at [www.lao.ca.gov](http://www.lao.ca.gov)

- *Coming Soon! – LAO State Spending Plan and CA Fiscal Outlook*
- *The Patient Protection and Affordable Care Act: An Overview of Its Potential Impact on State Health Programs*
- *The 2010-11 Budget: Health and Social Services— A Restricted Environment*
- *The 2010-11 Budget: Health and Social Services Budget Primer*

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