Q&A: The Affordable Care Act in Illinois

In 2014, Illinois will continue to implement federal health care reform at the state level. Medicaid expansion, the state health insurance exchange, the individual mandate, and the build out of managed care are among the most discussed policy changes the state will implement in coming years. IGPA health economists Anthony T. Lo Sasso and Robert Kaestner, and health policy professor Elizabeth Calhoun, answered questions about the effects of health care reform, and challenges facing Illinois in the coming years.

Dr. Anthony T. Lo Sasso is a professor in the Institute of Government and Public Affairs and a professor in the Division of Health Policy and Administration at the University of Illinois at Chicago's School of Public Health. Dr. Lo Sasso is an economist whose research spans several dimensions of health economics and health services research.

Dr. Robert Kaestner is a professor in the Institute of Government and Public Affairs and a professor in the Department of Economics of the University of Illinois at Chicago. He is also a research associate of the National Bureau of Economic Research and serves as a co-editor of the *Journal of Policy Analysis and Management*.

Dr. Elizabeth Calhoun is a professor in the Division of Health Policy and Administration at the University of Illinois at Chicago. She also is the director for the State of Illinois Navigator Training Program designed to support the efforts to enroll individuals and small businesses across Illinois into the Illinois Marketplace.

Q: Where did Illinois' health care policy stand before the Affordable Care Act?

Anthony Lo Sasso (AL): Illinois had approximately 1.5 million uninsured individuals and many of them stand to gain insurance coverage either through the health insurance exchange or Medicaid expansion.

Robert Kaestner (RK): Illinois was very close to the national average in terms of the number of uninsured, Medicaid costs and hospital costs.

Q: How will the Medicaid expansion work in Illinois?

AL: Medicaid already covers a substantial number of Illinoisans, including children under age 19, disabled individuals, and pregnant women, among others. The federal government pays half the cost for Medicaid enrollees in these categories, and will continue to do so under the new law. However, the Medicaid expansion under ACA adds new eligibility factors. Adults 19 to 64 years of age, who will qualify on the basis of income (138 percent of federal poverty level), will make up the "new" Medicaid clients. For this group, the federal government will pay 100 percent of the expense for their coverage over the next few years. Starting in 2016, the matching rate will begin dropping to 90 percent by 2020. While "free" Medicaid – as it appears from the state's vantage point – is appealing, some states are skeptical that the federal government will pick up at least 90 percent of the tab indefinitely. Moreover, as enrollment for traditional, pre-ACA Medicaid grows as a result of the individual mandate, state spending on the program will increase, perhaps dramatically. It is because of this fear that the state is racing to implement a variety of managed care programs in Medicaid. The stated goal is to have 50 percent of all Medicaid enrollees in managed care plans by 2015 (see "What is managed care?").

RK: The expansion of Medicaid will substantially reduce the proportion of persons uninsured in Illinois because it will expand eligibility to previously ineligible persons, such as childless adults, and because the individual mandate will compel some families who were always eligible to enroll. Unfortunately, the expansion of Medicaid will not be without costs because the state will pay 50 percent of the cost for those who were always eligible and 50 percent of the cost of those who move from private insurance to Medicaid. The state will also pay a part of the future costs of all new enrollees. While the cost may be favorable from the perspective of a cost-benefit analysis, the added cost will exacerbate the current dire fiscal situation of the state.

What is managed care?

Managed care seeks to streamline health care services and control costs by creating an integrated network of providers who oversee a patient's entire health care portfolio. In contrast to a fee-for-service system, managed care delivers treatment to patients through a central organization contracted by the state. The state currently has three managed care delivery systems:

Integrated care is available for adult patients who are eligible for Medicaid but not Medicare. The program seeks to create continuity in care and manage long-term disability and chronic conditions, keeping patients healthy and avoiding unnecessary health care costs.

Voluntary managed care allows patients in the Kids, Moms and Babies, and FamilyCare programs to choose a health care provider in a specific network, which is modeled after an HMO.

Primary care case management, called Illinois Health Connect, creates a "medical home" for patients, with a primary care provider who manages their overall care, focuses on preventative services and in turn avoids duplication of services and unnecessary costs.

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Elizabeth Calhoun (EC): The ACA will cause an influx of new patients into the Medicaid system as a result of the individual mandate. Illinois will need to be progressive in its strategies to manage these new enrollees, as well as current enrollees, to control costs. The plan to have 50 percent enrolled in managed care plans will be one step, but other strategic initiatives must be evaluated to help manage costs and cost escalation.

Q: With all these added costs, how will federal health care reform affect Illinois' state budget?

AL: It will very likely worsen the budget picture. As noted above, the state is aggressively pursuing managed care options for Medicaid, but many of the approaches being put forth have only limited potential to save money.

EC: Managed care of the Medicaid population will help reduce some of the added burden to the state budget through the expansion, but without other measures, such as patient navigators and other strategies to identify and support high-risk, high-cost users, it will adversely affect the poor financial picture in Illinois.

Q: How does Illinois' health insurance exchange work, and how does it compare to other states?

AL: Illinois is doing a "partnership" with the federal government for its health insurance exchange. This means the federal government is running the exchange for an initial period of time. Unfortunately, this also means that Illinoisans have struggled with the flaws in the website like residents of 34 other states that are relying on the federal exchange.

EC: Being in a "partnership" with the federal government has created a number of challenges for Illinois with the website, but also with training and other issues surrounding the start-up of the ACA. These issues have led to delays. Many of the states operating state-based exchanges have not had the challenges to enrollment and are operating quite efficiently.

RK: The bugs in the online federal exchange are likely to be worked out. The real question is whether the new offerings found online will be viewed as good deals by the healthy so that they will sign up.

Q: How will small businesses need to respond to the employer mandate?

AL: Some of the small business-oriented provisions of the ACA have been delayed for a year. This includes the employer mandate (which only applied to firms with more than 50 employees). The Small Business Health Options Program (SHOP) is a new program open to employers with 50 or fewer employees beginning in 2014. Right now the application process is being carried out with paper applications, but the intent is for it to be web-based at some point in the future. It is not at all clear whether SHOP can induce small firms to offer insurance to their employees. There are certainly many plausible circumstances in which small firms will drop currently offered coverage, which may no longer be consistent with federal minimum mandated benefit levels, and encourage employees to shop for potentially subsidized plan in the individual exchanges. For firms with more than 50 employees, it is also possible that many will simply pay penalties (when they are eventually enforced) and encourage employees to enroll in the exchanges.

RK: The ACA also provides an opportunity for small firms to use tax credits to lower the cost of offering health insurance to their employees. For larger firms, those with 50 or more employees, the ACA requires that they offer health insurance or pay fines. Some firms will decide to pay fines and others will not. How many firms decide to forgo or drop health insurance (because it may be more expensive under the ACA) is uncertain. Many firms that are close to the 50-employee threshold may also respond by reducing employment and moving some full-time employees to part-time to avoid the ACA mandate.

EC: The only concern is making certain that an employer counts his/her number of employees correctly, which can be challenging with part-time and seasonal workers. As stated above, the ACA has created a number of tools for small businesses to make health insurance more affordable. The SHOP marketplace makes it easy to compare plans and get a sense of the costs associated with offering coverage for employees. Additionally, employers with fewer than 25 employees might also qualify for the small business tax credit – which can help offset premium contributions

Q: What issues should Illinois policymakers have their eye on in 2014 regarding health care?

AL: Clearly, insurance coverage is a key outcome of interest for the state; in particular, how insurance coverage breaks out between Medicaid and exchange plans. The budget implications from expanded Medicaid enrollment will need to be closely observed. I think it is also important that the experience of enrollees in exchange plans is closely watched. Are they finding their preferred doctors in the network? Are they experiencing lengthy wait-times for appointments? Importantly, are the enrollees in the exchange plans a relatively unhealthy group? If healthy individuals failed to enroll, it will augur poorly for premiums come next open enrollment period.

EC: The state will need to make sure insurance coverage uptake matches the distribution of uninsured across Illinois, so there are not pockets of people who are missing the benefits of the ACA so as to not perpetuate many of the health disparities we see across Illinois. The end goal is to see improvements in health across the entire population of Illinois.