

Thomas L. Johnson
EXECUTIVE DIRECTOR

October 1, 2009



The Honorable Max Baucus
Chairman
Senate Finance Committee
219 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Charles E. Grassley
Ranking Member
Senate Finance Committee
219 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Baucus and Ranking Member Grassley,

Medicaid Health Plans of America strongly supports efforts to reform America's health care system. As an organization representing health plans in Medicaid, we appreciate efforts to expand coverage to more uninsured individuals through Medicaid and to improve the health care delivery system and promote health and wellness in the Medicaid population. We are supportive of several provisions in the Chairman's Mark, including extending the Medicaid Prescription Drug Rebate Program to pharmaceuticals provided through Medicaid managed care organizations. However, we have a particular concern with the proposed annual \$6.7 billion fee on health insurers, including, it appears, those that participate in Medicaid.

As you know, Medicaid health plans are compensated on a prepaid basis through capitated payment rates determined by states. Payments include state and federal Medicaid share, as determined by each state's FMAP formula. Rates must be actuarially sound, meaning payment must cover the cost of care as certified by actuaries based on experience data on medical costs, administrative costs, taxes, and other factors. Therefore rates do not vary widely from actual costs, and margins for Medicaid health plans are modest because of the payment system. A recent Oppenheimer report found the industry average margin was about 1.5% on 182 plans representing 15 million beneficiaries. Furthermore, margins are reinvested in quality initiatives, member benefits and services, and may compensate for rate shortfalls in prior or subsequent years. Medicaid health plans have strong partnerships with states and the federal government. Our plans add value in Medicaid through better benefit coordination and lower cost, and we take our responsibility seriously as stewards of taxpayer dollars.

Because of how Medicaid health plans are compensated, any additional tax or fee on Medicaid health plans would be passed along to states and the Federal government through the rate-setting process and would be counterproductive. Therefore we request Medicaid health plans be specifically exempted from the health insurance industry fees. Unlike commercial plans, Medicaid health plans cannot adjust premiums to reflect these higher taxes. Instead, the additional fees would be assessed to state budgets and could inhibit innovation in health care service delivery and quality advancements in Medicaid health plans. Thank you for your consideration.

Sincerely,

A handwritten signature in blue ink, appearing to read 'T. Johnson', is written over the typed name and title.

Thomas L. Johnson
Executive Director