

Actuarial Soundness & the Health Insurer Fee



- *The Balanced Budget Act of 1997 requires states to pay Medicaid health plans actuarially sound rates – payments adequate to cover medical costs, administration, taxes & fees.*
- *PPACA levies an annual fee on health insurers of \$8 billion starting in 2014, which increases over time. The fee applies to all health insurance risk revenue, including Medicaid and CHIP business.*
- *The cost of the annual insurer fee will be passed along to states and the federal government, raising costs in the program.*

Actuarial Soundness

Medicaid health plans are paid by states on a prepaid, monthly capitation basis for providing Medicaid benefits. The Social Security Act §1903(m)(2)(A)(iii) requires states to pay Medicaid health plans rates that are actuarially sound. The Centers for Medicare and Medicaid Services (CMS) has defined actuarial soundness through regulation [42 CFR §438.6] as (1) developed in accordance with generally accepted actuarial principles and practices; (2) appropriate for the populations to be covered and the services to be furnished; and (3) certified as meeting applicable regulatory requirements by qualified actuaries.

Further, in 2003, CMS developed a detailed checklist for states to use in the rate-setting process to ensure payments to health plans are appropriate to cover the cost of medical care and support services, administrative costs, taxes and fees. This actuarial soundness requirement is an important safeguard to ensure low-income beneficiaries have access to care but also to ensure that health plans are not overpaid.

In August 2010, the Government Accountability Office (GAO) issued a report (GAO-10-810) finding inconsistent CMS oversight in reviewing states' compliance with the actuarial soundness requirements, and considerable variation by CMS Regional Offices in review practices. The GAO recommended that CMS implement a uniform mechanism to track state compliance with the requirements, clarify guidance to Regional Offices on rate-setting reviews, and confirm the quality of the data used by states to set rates.

Health Insurer Fee

PPACA places an \$8 billion annual fee on the health insurance industry, which gradually increases to \$14.3 billion in 2018. The fee applies to commercial, Medicare, Medicaid and CHIP health risk revenues.

Applying the fee in Medicaid and CHIP taxes the benefits of our poorest citizens and raises costs to states and the federal government because of the actuarial soundness requirement. The brunt of this fee will be borne by financially strapped state Medicaid programs just as a major expansion of those eligible for Medicaid occurs in 2014. **It is estimated that the cost to states will be approximately \$800 million in the first year of the tax.** Because two-thirds of every dollar spent on Medicaid is federally funded, the tax will also be passed along to the Federal Government and is essentially the Federal Government taxing itself.

MHPA recommends exempting all premium revenue from Medicaid and CHIP when assessing the tax.

For more information, visit Medicaid Health Plans of America at www.mhpa.org or email jmoser@mhpa.org.