Connecticut Health Policy Project

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How to save $40 million or more in the HUSKY program without affecting access to care

Self-insurance in 2008 reduced medical costs

New financial numbers demonstrate that HUSKY's 2008 experiment with self-insurance could have saved millions if we negotiated reasonable administrative costs. SustiNet, Connecticut's plan for health care reform, includes moving HUSKY to self-insurance. Last year's budget agreement includes $11.7 million in on-going annual savings for shifting to self-insurance (plus $65 million savings in a one-time payment lag). DSS has not yet implemented that shift or captured those savings.

On November 29, 2007 Connecticut received approval to shift the HUSKY program, covering over 300,000 members, from a fully capitated payment arrangement to a self-insured program. Under capitation, the state paid the three participating HMOs a set fee per member per month (pmpm) based on age, gender and county. Under the self-insured arrangement, the state paid the full amount of HUSKY members' medical costs plus $18.18 pmpm to the same HMOs for administering the program. The self-insured program is often termed an ASO model (Administrative Services Organization) or a PHIP (Prepaid Inpatient Health Plan). The self-insured payment system lasted from December 1, 2007 to January 31, 2009, when the program was shifted back to capitation with the current three HMOs.

A new actuarial analysis finds that, contrary to DSS predictions, medical costs under the self-insured program were lower than under the capitated system, by $2.78 pmpm on average. Unfortunately because the shift to self-insurance was sudden, the state was in a poor negotiating position and settled on a payment of $18.18 pmpm to the HMOs to administer the plan. The next year when the program returned to capitation, the HMOs were able to administer the program for only $13.31 pmpm - **when they were spending their own money**.

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2009 projected PHIP expenditures vs. HMO expenditures (pmpm)		
	PHIP - average trend	**HMO reported**
Medical	$172.81	$175.58
Administration	$18.78*	$18.78
Total	$190.64	$188.89
Source: Prepaid inpatient health plan reconciliation process, Mercer, Jan. 14, 2011		

As new HUSKY contracts are currently being negotiated and the state is re-designing how we pay for Medicaid, the state should be able to negotiate a better administrative rate with the HMOs, closer to the real costs of administration, and potentially save over $5 pmpm, without any loss of access to care for HUSKY families. This is in addition to savings gained by removing HMO profits from the program. Re-bidding the program would help secure these savings, and possibly more. In addition, engaging new bidders with stronger provider panels could potentially improve access to care for HUSKY families.

Combining a reasonable administrative rate with the lower medical costs, shifting HUSKY back to self-insurance the state could save $8.25 pmpm or, at current enrollment trended forward to this year, $41 million.

Bottom Line:

By shifting back to self-insurance, Connecticut could save at least $40 million each year with no impact on access to care. Re-bidding the program could improve these savings and expand access to care for struggling HUSKY families.

Sources:Prepaid inpatient health plan reconciliation process, Mercer, Report to Medicaid Care Management Oversight Council, 1/14/11, ACS HUSKY Enrollment Report as of 1/1/11, SustiNet Health Partnership Final Report, Jan. 2011, CT State Budget 2010-2011 Revisions, Office of Fiscal Analysis, December 2010.

* Mercer actuaries added six cents to the PHIP administrative spending line for the cost of a nurse advice line.

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