

**Dirigo Health Agency Budget Material  
State Fiscal Years 2010 and 2011**

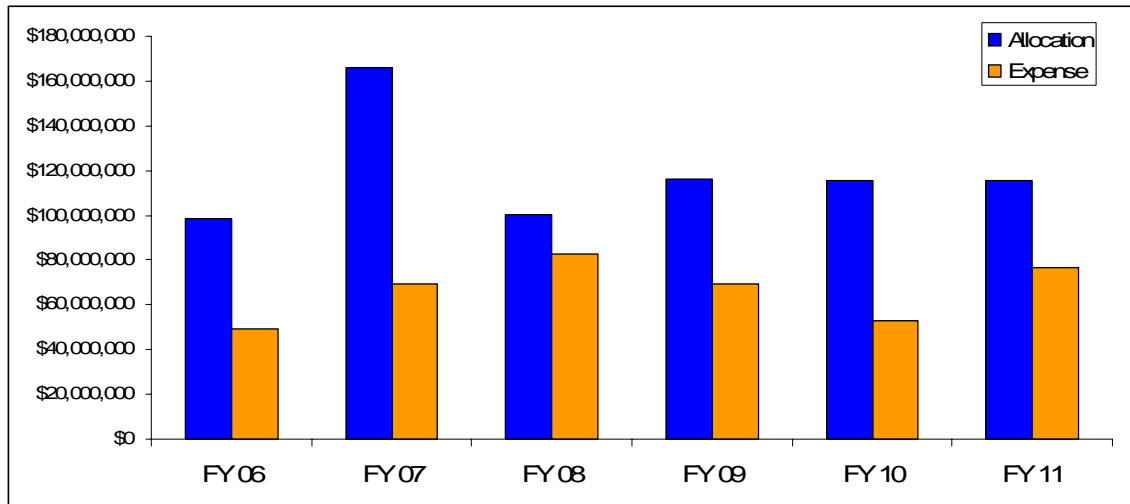
**Presented to the Maine Legislature March 2009**

## Comparison of Agency Budgeted Allocations to Actual Expenses

The Agency has historically spent less than the Legislature has allocated due to actual and forecast revenues.

	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11
<b>DC Members</b>	10,365	14,270	12,050	8,314	5,136	9,622
<b>PE Members</b>	5,048	5,606	5,574	5,462	5,462	5,462
<b>Total Budget Allocation</b>	\$98,557,968	\$165,751,580	\$100,147,329	\$116,033,692	\$115,673,085	\$115,672,525
<b>Actual Total Expense<sup>1</sup></b>	\$49,201,744	\$69,504,308	\$82,891,803	\$69,441,238	\$53,095,086	\$76,843,234

Seen visually, the difference between the Agency's historical and projected budgets and its actual and projected expenses.



Note: the Total Budget Allocation represents the Legislature's authorization to spend funds in each fiscal year.

<sup>1</sup> Expense figures for FY 2009, 2010, and 2011 include projections.

## **Dirigo FY 10 Budget**

**The primary goals in the Agency's build up of the SFY10 budget are:**

- 1. to manage the expenses of the Agency to the SOP revenue earned in the fiscal year and**
- 2. to end the fiscal year without a negative fund balance.**

We anticipate ending SFY09 with a negative \$19.6 million cash balance. The cash balance represents the cash in the bank at any time.

The Agency's fund balance at the end of SFY09 is estimated at a negative \$10 million (the fund balance represents the net of all the assets and liabilities the fund has at any time). The difference between the fund and cash balance at the end of the year is an anticipated receivable of \$9.6 million of SOP and member premium payments which the Agency will collect prior to September 2009.

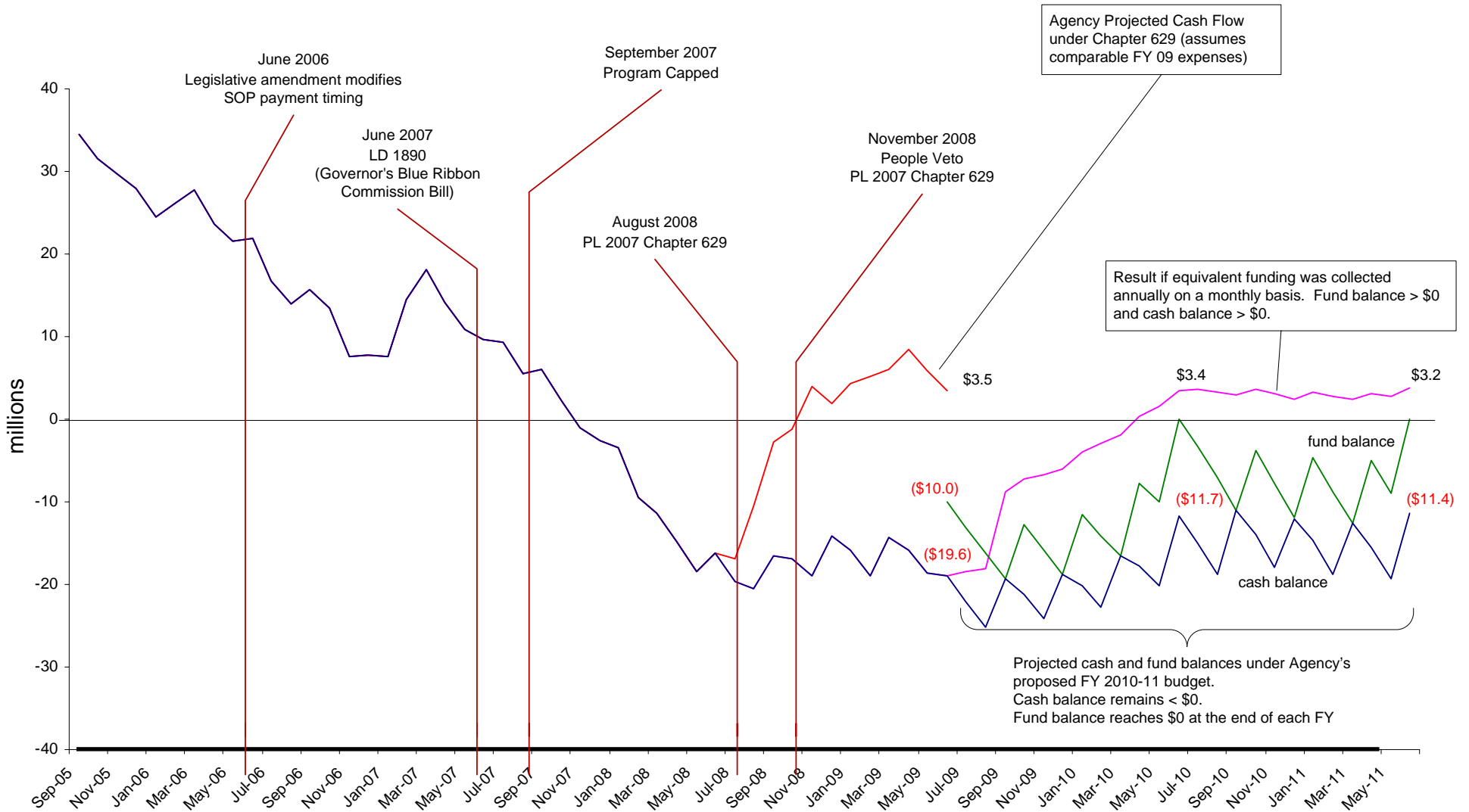
We anticipate ending SFY10 with a \$0 fund balance and a cash balance of negative \$11.7 million which will be paid off within 60 days of the end of the fiscal year. Given the timing of the SOP payments (plan year and quarterly) the Agency will still need to borrow from the cash pool each month. However, at the end of the year the fund will be balanced.

### **Key points regarding Agency's cash flow:**

When the legislative change occurred in 2006 changing application of and timing of SOP payments from a 12 month cycle to a 27 month cycle, the Agency began immediately working with the Governor's Office and with the Legislature to address the created cash flow problem.

The results of these efforts produced the Governor's Bill (LD 1890) in 2007, which was not enacted but would have eliminated the cash flow challenges. In 2008 the Legislature enacted PL 2007 Chapter 629 which eliminated the cash flow challenge but was overturned by the People's Veto. The Agency's Board also took immediate action to reduce the program's expenses (culminating in the enrollment cap in September 2007).

Dirigo Health Fund Average Cash Balance September 2005 – January 2009 with projections to June 2011  
Includes key funding milestones.



**Key Points regarding the budget for SFY10:**

1. Transitional Year
2. Program remains capped.
3. We end SFY09 with 8,314 DirigoChoice members and 5,462 Medicaid Parents
4. We anticipate ending SFY10 with 5,136 DirigoChoice members and 5,462 Medicaid Parents.
5. The reduction in DirigoChoice members in SFY10 is a result of the 2% voluntary termination rate each month and the 83% contract renewal rate.
6. AMCS Year 4, which is what SOP year 4 is based on and which represents \$28.6M of earned SOP revenue in SFY10, is being challenged in Kennebec Superior Court.

## Components of the Agency's Proposed Budget

Dirigo SFY 2010 Budget	
Resources	
Savings Offset Payments: \$38.6 M	<ul style="list-style-type: none"> <li>\$10.4 M is the tail of SOP 3 payments (SOP 3 is for SFY09 expenses)</li> <li>\$28.2 M is anticipated SOP 4 (this represents approximately 69% of SOP 4 total. The reason why we do not collect the full amount of SOP in the fiscal year is b/c the law allows SOP to apply on plan year and is collected 60 days at the end of each quarter. This creates a 27 month collection cycle vs. 12 months.</li> </ul>
Member DirigoChoice Premium Payments: \$19.2 M	<ul style="list-style-type: none"> <li>Member payments represent the amount paid by DirigoChoice members for the DirigoChoice insurance coverage with Harvard Pilgrim Health Care.</li> <li>Every month the DirigoChoice carrier (Harvard Pilgrim Health Care) bills DirigoChoice small groups, individuals and self-employed members.</li> <li>DirigoChoice members send their payments to the Dirigo Health Agency</li> <li>The Dirigo Health Agency adds its portion of the premium (subsidy) to the member payments and forwards the total payment to Harvard Pilgrim Health Care.</li> <li>DirigoChoice members pay 44% of the premium and the Agency through the subsidy pays the remaining 56%.</li> </ul>
Membership Fees: \$.5 M	<p>Monthly Fees are:</p> <ul style="list-style-type: none"> <li>Individual / Self-Employed: \$12.50</li> <li>Businesses from 2-9 employees: \$12.50 (per business)</li> <li>Businesses from 10-24 employees: \$20.83 (per business)</li> <li>Businesses from 25-50 employees \$29.17 (per business)</li> </ul>
Fund for Healthy Me: \$4.7 M	<ul style="list-style-type: none"> <li>PL 2007, Ch 629 established an ongoing allocation to the Agency from the Fund for Healthy Me in the amount of \$5 M each year. Because of an anticipated reduction in revenue into the fund for Healthy Maine the allocation to DHA has been adjusted downward</li> <li>In the budget this allocation is accounted for as an offset to subsidy expenses.</li> </ul>
<b>Total Resources: \$63.1 M</b>	

<b>Dirigo SFY 2010 Budget</b>	
<b>Expenditures and Other Uses</b>	
Personal Services (staff): \$1.3 M	<ul style="list-style-type: none"> <li>• There are 13 state budgeted positions. 10 of the 13 positions are filled with an estimated cost of \$955,200 in SFY09.</li> <li>• The positions support the activities of DirigoChoice and the Maine Quality Forum and represent 2.5% of the Agency's total expenses in FY10</li> </ul>
Other Operating costs: \$1.1 M	<ul style="list-style-type: none"> <li>• Includes, rent, travel, Board stipends, training, insurance, postage, office supplies, utilities, technology, etc.</li> </ul>
Consulting services for the determination of Aggregate Measurable Cost Saving (AMCS): \$.8 M	<ul style="list-style-type: none"> <li>• Every year the Agency's Board is required to conduct an adjudicatory hearing to determine AMCS. The determination must be made by August 1 of each year.</li> <li>• Once the Board has made its determination, the Superintendent of Insurance must review the Board's decision and approve it in whole or in part.</li> <li>• Once the Superintendent has made a decision, the Board is required to set the savings offset payment no later than January 1 of each year. The SOP can not exceed the amount of AMCS or 4% of paid claims.</li> </ul>
Maine Quality Forum Projects: \$1 M	<p>Key projects and topics that will continue to be the focus of the Agency's work in Quality include:</p> <ul style="list-style-type: none"> <li>• Patient Centered Medical Home Pilot</li> <li>• Health Care Associated Infections (HAI)</li> <li>• Variation in Health Care delivered in Maine Part II</li> <li>• Health Information Technology</li> <li>• CMS Electronic Health Record Demonstration</li> </ul>
Medicaid Parent Expansion Subsidy: \$5.1 M	<ul style="list-style-type: none"> <li>• Parents under 200% of federal poverty that the Agency provides state share for.</li> <li>• As of January 1, 2009 there are 5,537 parents enrolled in this category.</li> <li>• We estimate ending membership as of June 30, 2010 in this category at 5,432 members.</li> </ul>

<b>Total DirigoChoice Premium: \$43.8 M</b>	DirigoChoice Subsidy: \$24.6 M	<ul style="list-style-type: none"> <li>• DirigoChoice subsidy is for household incomes under 300% of FPL.</li> <li>• Just under 70% of DirigoChoice members are under 200% of FPL.</li> <li>• Average Household income for subsidized members is \$15,000.</li> <li>• Subsidy level is based on a sliding scale based on income level</li> <li>• Approximately 2% of DirigoChoice members dis-enroll each month</li> <li>• Approximately 83% of DirigoChoice contracts renew at the end of their 12 month cycle.</li> <li>• DirigoChoice has been capped and not accepting new subsidized members since September 2007 (with some program exceptions)</li> </ul>
	Member DirigoChoice Premium Costs: \$19.2 M	<ul style="list-style-type: none"> <li>• The Member DirigoChoice Premium Cost is the portion of the Premium charged by Harvard Pilgrim Health Care that the DirigoChoice members are responsible for.</li> <li>• The Member premium payments (revenue) match the Member Premium Costs (expense).</li> </ul>
	Negative Fund Balance from SFY09: \$10 M	<ul style="list-style-type: none"> <li>• Carry forward balance from SFY09 as a result of SOP payments being on a 27 month cycle vs. a 12 month cycle.</li> </ul>
<b>Total Expenditures \$53.1</b> <b>Other Uses: \$10.1 M (Negative Fund Balance)</b> <b>Total \$63.1 M</b>		



**Key Points regarding SFY11 Budget:**

1. The difference in revenue between SFY10 and SFY11 is \$13.7M and
2. is primarily due to the increase in membership in SFY11 which will
3. result in higher member premium payments. \$19.2M in SFY10 vs. \$29.7M in SFY11. This accounts for \$10.5M of the difference.
4. The remaining \$3.2M is higher SOP payments and membership fees (again due to increased membership),
5. Ending DirigoChoice membership June 30, 2010 is estimated at 5,136.
6. Ending DirigoChoice membership June 30, 2011 is estimated at 9,622

<b>Dirigo SFY 2011 Budget</b>	
<b>Resources</b>	
Savings Offset Payments: \$41.7 M	<ul style="list-style-type: none"> <li>• \$13.5 M is the tail of SOP 4 payments.</li> <li>• \$28.2 M is placeholder for budget purposes for SOP 5.</li> </ul>
Member DirigoChoice Premium Payments: \$29.7 M	<ul style="list-style-type: none"> <li>• Member payments represent the amount paid by DirigoChoice members for the DirigoChoice insurance coverage with Harvard Pilgrim Health Care.</li> <li>• Every month the DirigoChoice carrier (Harvard Pilgrim Health Care) bills DirigoChoice small groups, individuals and self-employed members.</li> <li>• DirigoChoice members send their payments to the Dirigo Health Agency</li> <li>• The Dirigo Health Agency adds its portion of the premium (subsidy) to the member payments and forwards the total payment to Harvard Pilgrim Health Care.</li> <li>• DirigoChoice members pay 44% of the premium and the Agency through the subsidy pays the remaining 56%.</li> </ul>
Membership Fees: \$.7 M	<p>Monthly Fees are:</p> <ul style="list-style-type: none"> <li>• Individual / Self-Employed: \$12.50</li> <li>• Businesses from 2-9 employees: \$12.50 (per business)</li> <li>• Businesses from 10-24 employees: \$20.83 (per business)</li> <li>• Businesses from 25-50 employees \$29.17 (per business)</li> </ul>
Fund for Healthy Me: \$4.7 M	<ul style="list-style-type: none"> <li>• PL 2007, Ch 629 established an ongoing allocation to the Agency from the Fund for Healthy Me in the amount of \$5 M each year. Because of an anticipated reduction in revenue into the fund for Healthy Maine the allocation to DHA has been adjusted downward</li> <li>• In the budget this allocation is accounted for as an offset to subsidy expenses.</li> </ul>
<b>Total Resources: \$76.8 M</b>	

<b>Dirigo SFY 2011 Budget</b>	
<b>Expenditures and Other Uses</b>	
Personal Services (staff): \$1.4 M	<ul style="list-style-type: none"> <li>• There are 13 state budgeted positions.</li> <li>• The positions support the activities of DirigoChoice and the Maine Quality Forum and represent 1.8% of the Agency's total expenses in FY10</li> </ul>
Other Operating costs: \$1.3 M	<ul style="list-style-type: none"> <li>• Includes, rent, travel, Board stipends, training, insurance, postage, office supplies, utilities, technology, etc.</li> </ul>
Consulting services for the determination of Aggregate Measurable Cost Saving (AMCS): \$.8 M	<ul style="list-style-type: none"> <li>• Every year the Agency's Board is required to conduct an adjudicatory hearing to determine AMCS. The determination must be made by August 1 of each year.</li> <li>• Once the Board has made it determination, the Superintendent of Insurance must review the Board's decision and approve it in whole or in part.</li> <li>• Once the Superintendent has made a decision, the Board is required to set the savings offset payment no later than January 1 of each year. The SOP can not exceed the amount of AMCS or 4% of paid claims.</li> </ul>
Maine Quality Forum Projects: \$1 M	<p>Key projects and topics that will continue to be the focus of the Agency's work in Quality include:</p> <ul style="list-style-type: none"> <li>• Patient Centered Medical Home Pilot</li> <li>• Health Care Associated Infections (HAI)</li> <li>• Variation in Health Care delivered in Maine Part III</li> <li>• Health Information Technology</li> <li>• CMS Electronic Health Record Demonstration</li> </ul>
Medicaid Parent Expansion Subsidy: \$5.1 M	<ul style="list-style-type: none"> <li>• Parents under 200% of federal poverty that the Agency provides state share for.</li> <li>• We estimate ending membership as of June 30, 2010 in this category at 5,432 members.</li> </ul>

<b>Total DirigoChoice Premium: \$67.6 M</b>	DirigoChoice Subsidy: \$37.9 M	<ul style="list-style-type: none"> <li>• DirigoChoice will open enrollment to new subsidized members</li> <li>• Approximately 2% of DirigoChoice members dis-enroll each month</li> <li>• Approximately 83% of DirigoChoice contracts renew at the end of their 12 month cycle.</li> </ul>
	Member DirigoChoice Premium Costs: \$29.7 M	<ul style="list-style-type: none"> <li>• The Member DirigoChoice Premium Cost is the portion of the Premium charged by Harvard Pilgrim Health Care that the DirigoChoice members are responsible for.</li> <li>• The Member premium payments (revenue) match the Member Premium Costs (expense).</li> </ul>
<b>Total Expenditures and Other Uses: \$76.8 M</b>		

**Budget Terminology in the State Budget Document:**

Fund for Healthy ME –allocation from the Fund for Healthy Me

Personal Services- State budgeted staff positions

All Other- Subsidy, Medicaid Parent Expansion, AMCS Consulting, MQF, other Operating Costs and Member DirigoChoice Premium Costs

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	<b>2009-10</b>	<b>Requested Revision</b>	<b>2010-11</b>	<b>Requested Revision</b>
Fund For Healthy Maine	\$4,718,571	No Change	\$4,684,393	No Change
Dirigo Health Fund	\$110,954,514	\$48,376,515	\$110,988,132	\$72,158,841
Department Total	\$115,673,085	<b>\$53,095,086</b>	\$115,672,525	<b>\$76,843,234</b>

The \$10 million difference between the \$53.1 million requested allocation and the \$63.1 million total in Expenditures and Other Uses in SFY10 presented above is the amount of the negative fund balance the Agency plans to eliminate in SFY 10. Since these funds have already been allocated and expended in SFY 09, there is no need to request an allocation in FY 10.

## Key Terms

- **Admin / Administrative Costs** – Agency’s operating expenses excluding Staff and SOP eligible expenses.
- **All Other** – State budget term for all expenses that are not Staff (Personal Services).
- **AMCS (Aggregate Measureable Cost Savings)** – The amount of money the health care system in Maine has saved due to the operations of Dirigo Health.
- **Carrier** – The insurance company who provides DirigoChoice through its contract with the Agency.
- **DirigoChoice** – the insurance program subsidized by the Dirigo Health Agency and offered through a private insurance carrier (currently Harvard Pilgrim Health Care).
- **DirigoChoice Eligibility** – DirigoChoice is currently not offering subsidy to any new enrollees with the exception of: HCTC qualified individuals, new employees of enrolled small groups, and new dependents of enrolled members. When funding allows, persons under 300% of poverty are eligible for subsidy on a sliding scale.
- **Enterprise Fund** – A fund type used by state and local governments to account for “business-type activities” – activities similar to those found in the private sector. The Dirigo Health Agency operates as an Enterprise Fund.
- **FPL (Federal Poverty Limit)** – a dollar amount the Federal Government sets each year to define poverty by family size.
- **Fund balance vs. cash balance** – in accrual based accounting (used by Enterprise Funds) the fund balance represents the net of all the assets and liabilities the Enterprise has at any given time. The cash balance represents the amount of money the Enterprise actually has in the bank at any given time.
- **HCTC (Health Care Tax Credit)** – Federal program that provides a 65% subsidy for workers who have lost their jobs due to off-shoring. DirigoChoice is the Federally qualified HCTC plan in Maine
- **Healthy ME** – PL 2007 Chapter 629 established an ongoing allocation to the Agency from the Healthy ME fund.
- **Member months** - the aggregate amount of each month’s total enrollment in a given period (e.g., 1 member enrolled for 12 months would equal 12 member months). Member months are the units of **volume** in insurance, and provide a better insight into how much coverage an entity is providing than a static one month member count does.
- **Membership Fees** – the amount members pay to the Agency for participation in DirigoChoice, the financial discount program, and enhanced wellness programs.
- **MQF (Maine Quality Forum)** – The part of the Dirigo Health Agency tasked with monitoring and improving the quality of health care in Maine.
- **Paid Claims** – the health care costs that form the basis of the SOP assessment and that are the responsibility of the SOP payers as defined in the Agency’s rules at:  
<http://www.dirigohealth.maine.gov/Pages/rules.html>

- **Parent Expansion** – The Medicaid eligibility category (persons under 200% of FPL with children) funded through Dirigo Health.
- **PMPM** (per member per month) - total cost (premium) in a given period divided by total member months in that period, and represents what the Agency (or the members) pay (on average) for each member each month. PMPM is the typical **unit cost** in insurance.
- **Premium Costs** – The amount charged by the carrier for DirigoChoice.
- **Premium Payments** – The amount paid by DirigoChoice members for their insurance.
- **Small Group vs. Self-Employed vs. Individual** – The categories of enrollment in DirigoChoice. Small Groups are businesses of 50 or fewer employees. The self-employed (also called Sole Proprietors) are so defined through their tax filings, but typically include artists, contractors, farmers, fishermen, etc. Individuals are people who are unemployed, work part time, work for a small business which doesn't offer insurance or their employer couldn't meet the 75% participation requirement, early retirees, household workers, or are HCTC eligible.
- **SOP (Savings Offset Payment)** – The annual amount the Dirigo Health Agency Board sets as an assessment based on the determination of AMCS and not to exceed 4% of paid claims.
- **Staff** – Agency costs for State budget positions.
- **Subsidy** – the amount the Agency pays for DirigoChoice coverage.