RAND HEALTH

Modeling Dr. Dynasaur 2.0 Coverage and Finance Proposals:

Effects of the Expansion of Vermont's Dr. Dynasaur Program to All Individuals Through Age 25

Andrew W. Dick

Background

In 1994, Vermont created Dr. Dynasaur, the combined Medicaid and Child Health Plus program, to provide insurance for children ages 0 through age 18 for families with income < 317% FPL.

The state is now considering an expansion of Dr. Dynasaur to cover all individuals through age 25 regardless of income (Dr. Dynasaur 2.0).

At the request of the legislature, we have examined the consequences of Dr. Dynasaur 2.0. I will be presenting the main findings of our study here. Additional detail can be found in the final report, available at:

www.rand.org/t/RR1743

Features of the Study

As stipulated in the request, we have:

- **Maintained features of Dr. Dynasaur 1.0, including:**
  - **Covered benefits and premium structures;**
- **Identified insurance coverage changes for all VT residents;**
- **Considered alternative reimbursement rates, including:**
  - **Medicare, midpoint, and commercial rates;**
- **Estimated program costs, including:**
  - **Costs of health care services and**
  - **Administrative costs;**
- **Estimated the additional revenues needed to fund the system;**
- **Created projections for the period 2019 to 2023; and**
- **Evaluated 3 financing strategies to fund the program.**

Financing Strategies

- **Given program design and current program revenues, Dr. Dynasaur 2.0 will require additional funding. In addition to quantifying the shortfall, we were asked to evaluate alternative strategies for raising the required funds.**

- **The strategies we evaluated are:**
  - **An increase in the income tax, which**
    - **Maintained the progressive structure of the current VT income tax,**
  - **A payroll tax, which**
    - **Would be paid for by employers and would maintain tax advantages of benefits for workers, and**
  - **A new business enterprise tax (BET),**
    - **Largely modeled after the NH BET.**

- **We evaluated the strategies independently, but the taxes could be imposed in combinations.**

Features of Dr. Dynasaur 1.0 and 2.0 are identical, except for eligibility.

	Dr. Dynasaur 1.0	Dr. Dynasaur 2.0
Elilgibility		
Ages	0 through 18	0 through 25
Family Income	Up to 317% FPL	No limit
Benefits	(Same)	
Inpatient	Yes	Yes
Physical Health	Yes	Yes
Mental Health	Yes	Yes
Dental	Yes	Yes
Vision	Yes	Yes
Prescription Drugs	Yes	Yes
Premiums	(Same)	
Below 185% FPL	None	None
185% - 225% FPL	$15 per month	$15 per month
225% - 317% FPL		
With other coverage	$20 per month	$20 per month
With no other coverage	$60 per month	$60 per month
Above 317% FPL	NA	$60 per month
Cost Sharing	(Same)	
Deductible	None	None
Co-insurance	None	None
Annual or life-time limits	None	None

Analytic Approach

Core of the approach is the RAND COMPARE model, a microsimulation model of the US healthcare economy, modified to represent the Vermont healthcare economy (COMPARE-VT).

We use COMPARE-VT to generate estimates of:

- **Insurance coverage choices by individuals and families:**
  - **Employer Sponsored Insurance (ESI) and Dr. Dynasaur,**
- **Wage changes associated with those ESI choices,**
- **New ESI premiums resulting from changes in risk pool.**

These results feed back to the model:

- **The effect of premiums on insurance choices,**
- **The effect of wage changes on tax revenues.**

All of this is made possible because of the excellent data available in Vermont!

Alternative Scenarios

We present results for the following alternative scenarios:

Program enrollment (or participation) rates, including

- **100% enrollment, which might occur if mandated, and which shows program potential, and**
- **70% enrollment, which is the typical rate of enrollment simulated by the COMPARE-VT model when choice is allowed.**

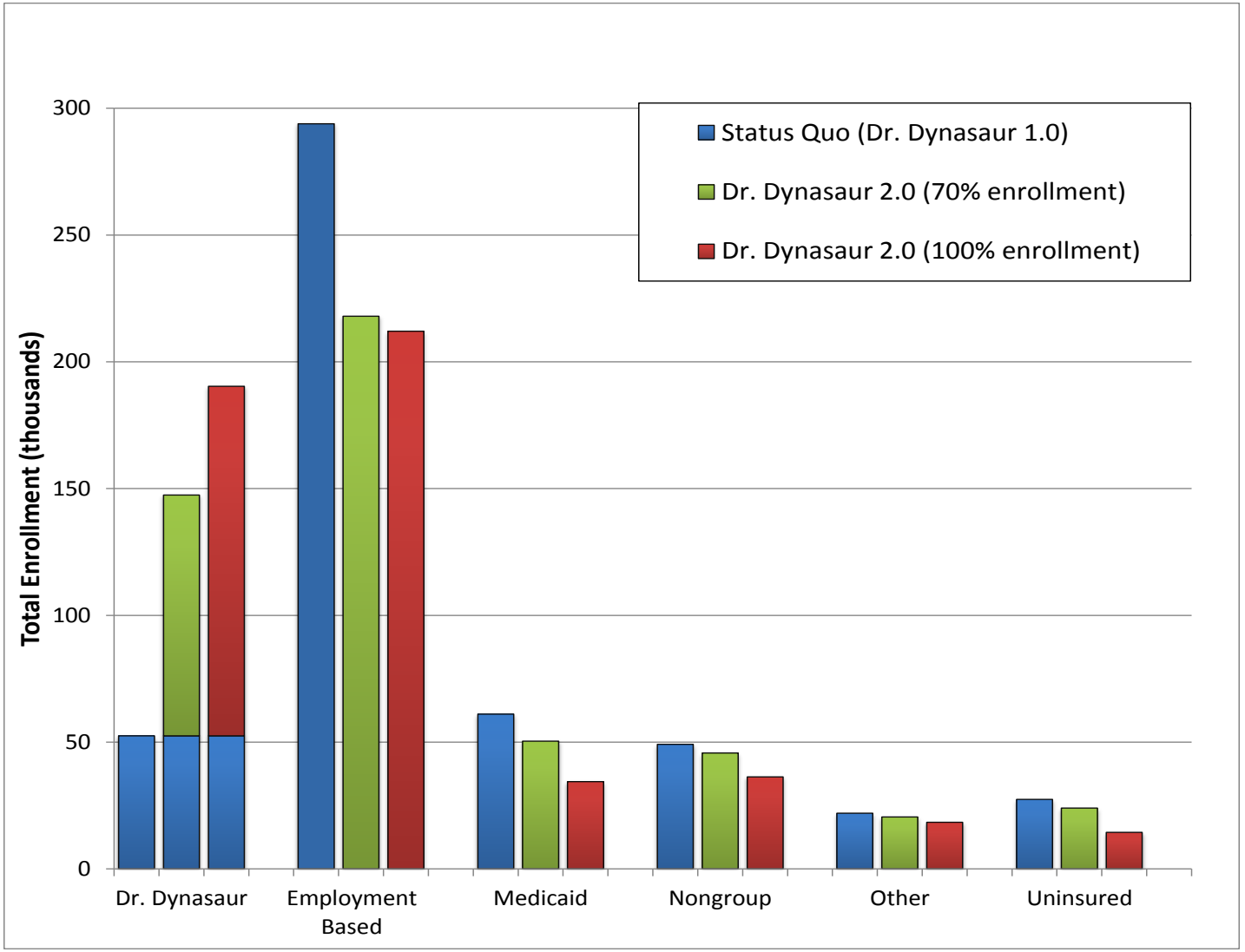
Health care service reimbursement rates, including

- **Medicare,**
- **Midpoint, and**
- **Commercial rates.**

Note that Dr. Dynasaur 1.0 reimbursement rates are currently below Medicare rates, and we use these lower rates to model the status quo.

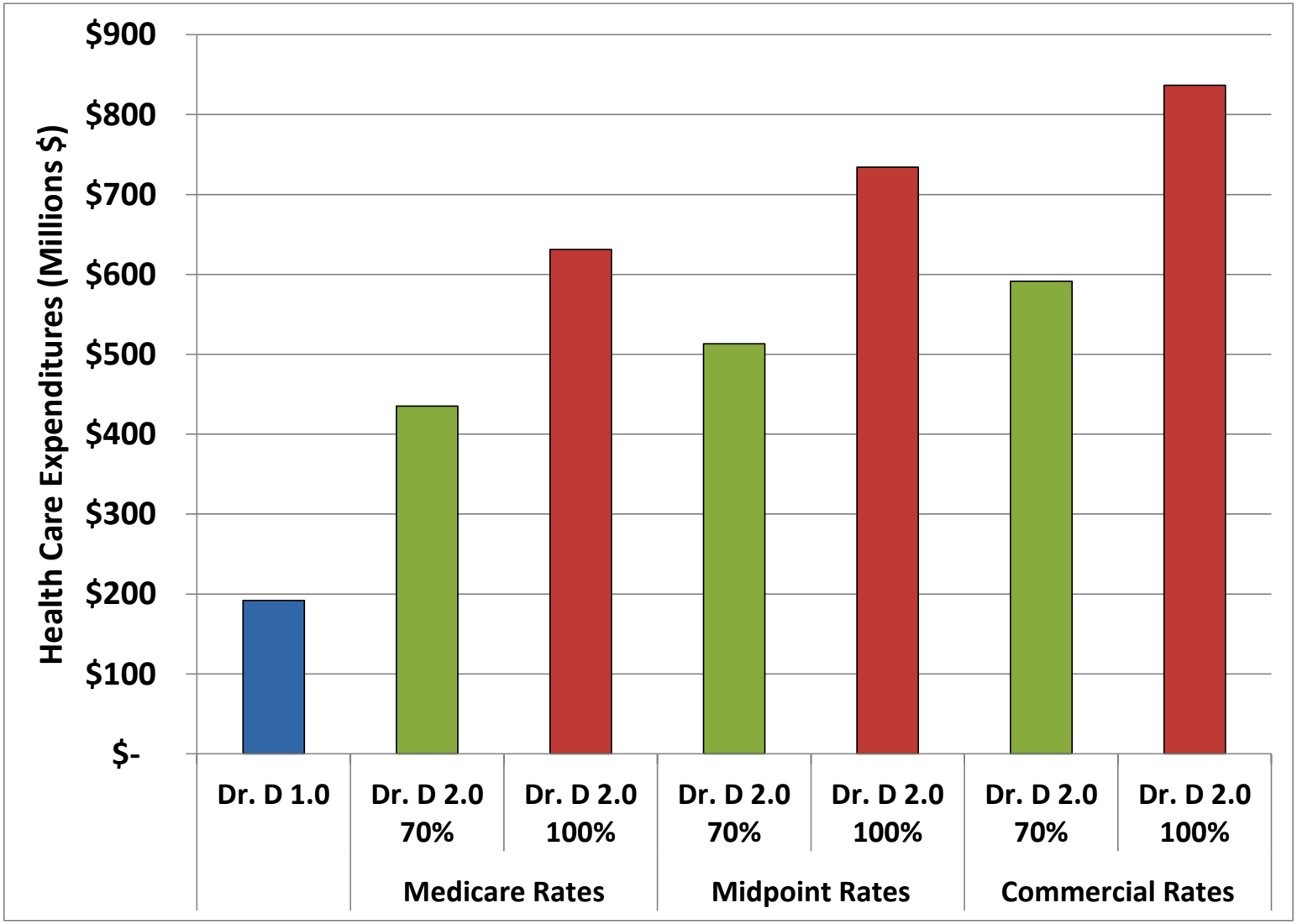
In all that follows, we present only the 2019 estimates. The full set of estimates is available in the report.

Dr. Dynasaur enrollment increases 2 to 3 fold with Dr. Dynasaur 2.0, much of it coming from ESI.

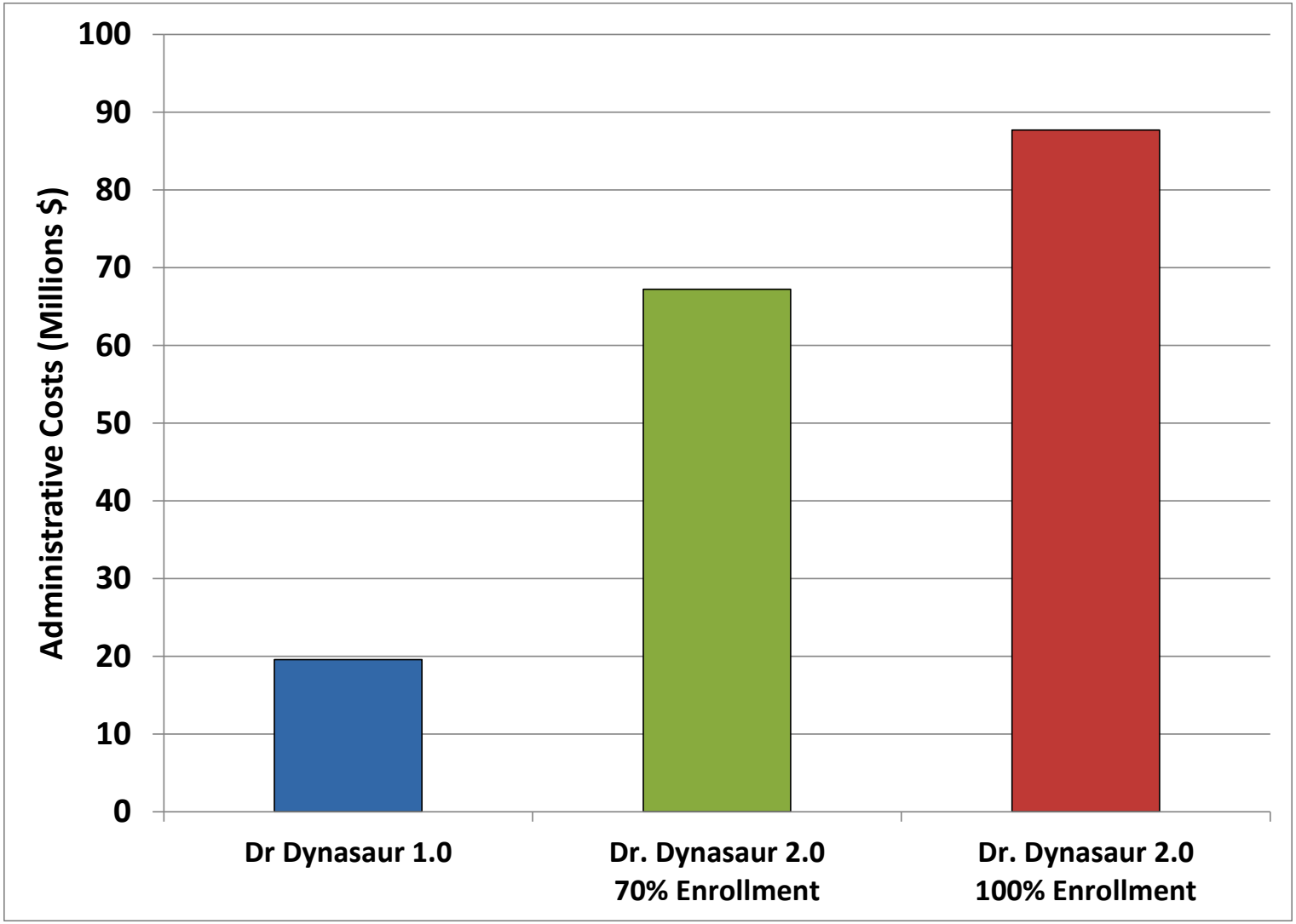


RAND

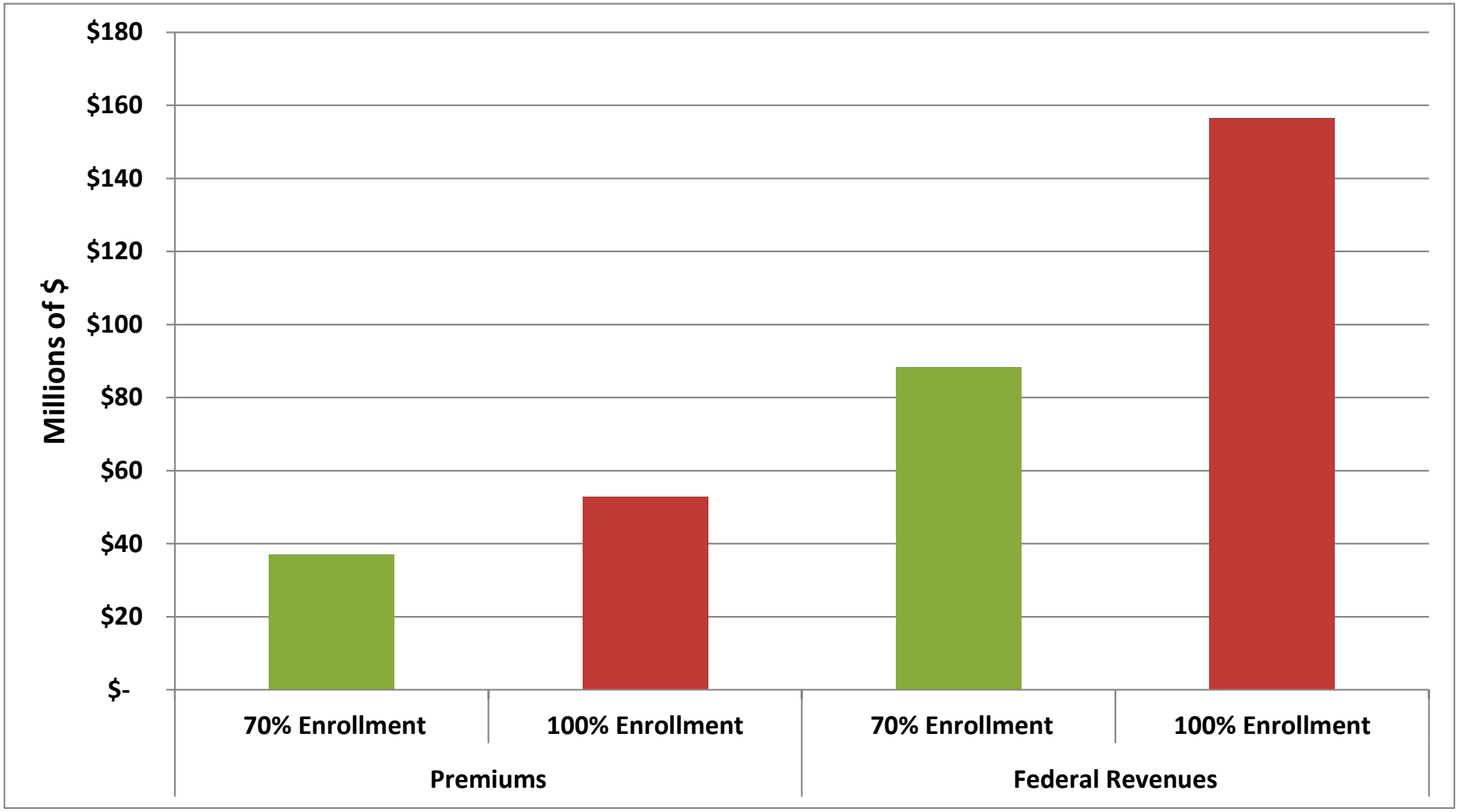
Dr. Dynasaur health care expenditures increase, both because of new enrollees and because of higher reimbursement rates.



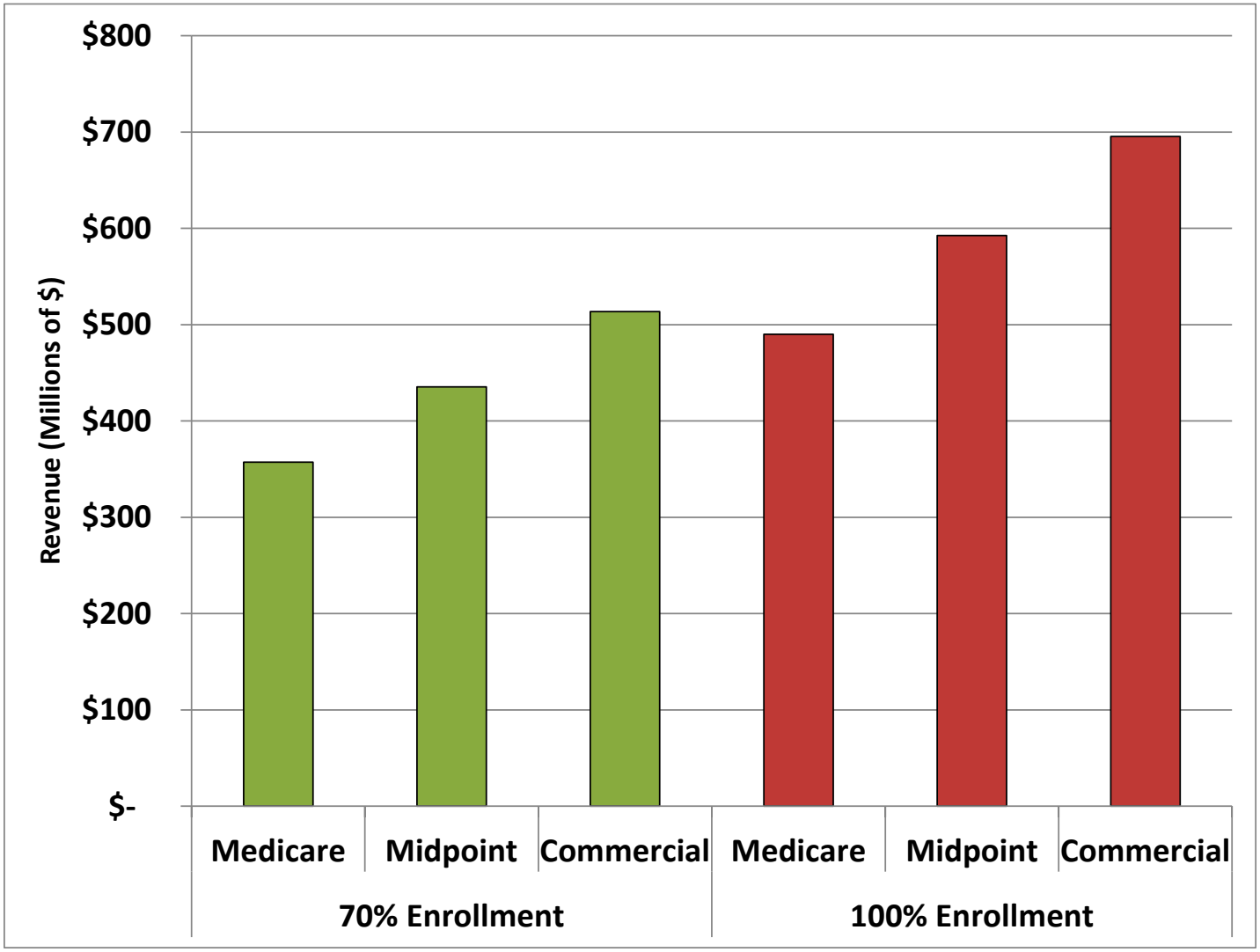
Administrative costs also increase (proportionally).



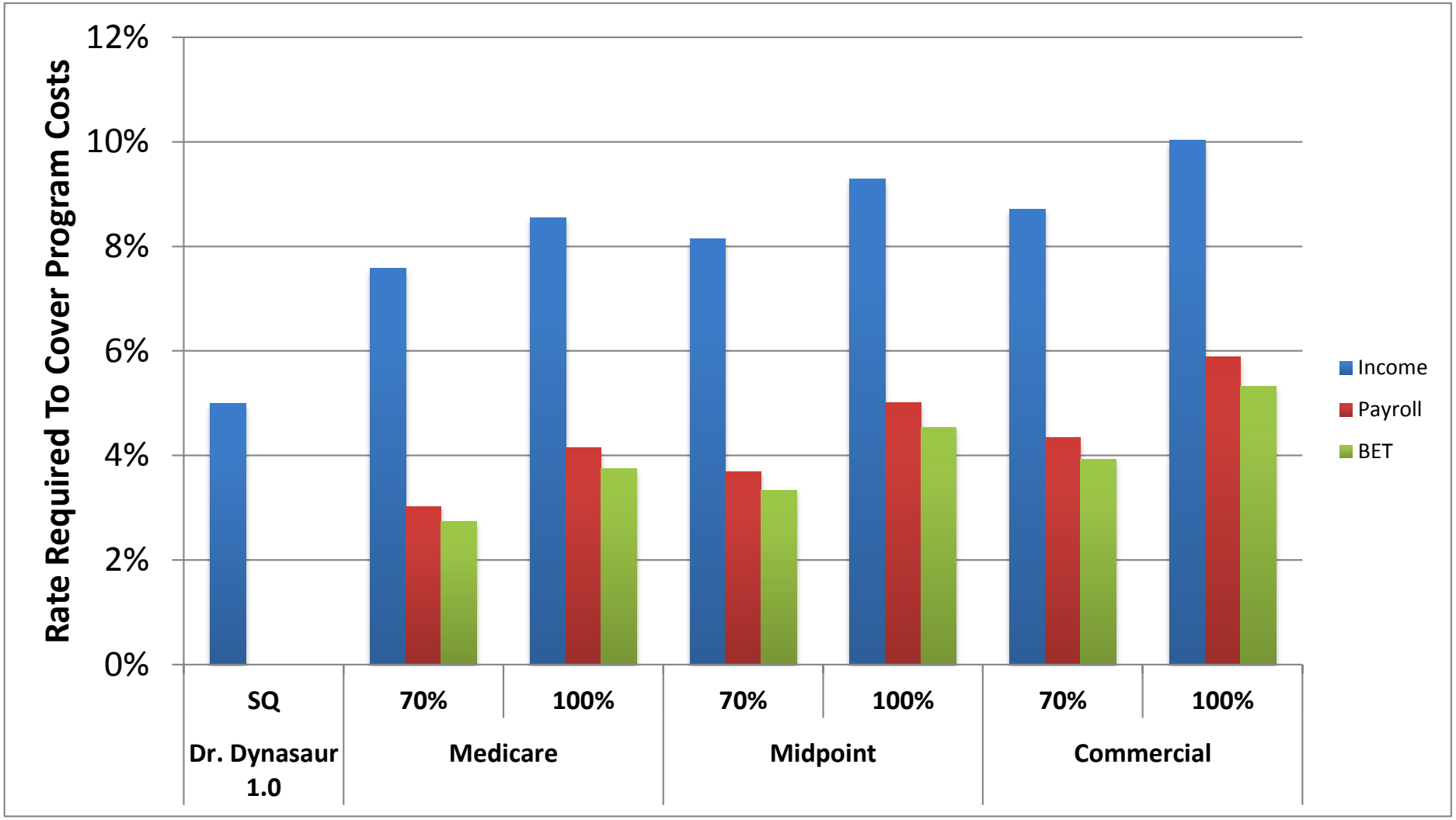
Additional revenues from current sources increase.



Dr. Dynasaur 2.0 estimated revenue shortfalls are sizeable regardless of scenario.



Tax rate increases are required to meet the revenue shortfall.



Summary

Dr. Dynasaur 2.0 represents a large expansion in coverage from Dr. Dynasaur 1.0.

- **Potentially increasing Dr. Dynasaur enrollment by nearly 300%.**
- **Potentially a universal program for young people.**

New revenues required vary substantially depending on:

- **Reimbursement rates,**
- **Premium structures,**
- **Program participation (which will depend on program features);**

But as currently modeled, substantial new revenues would be required under any scenario.

Challenges

Reimbursement rates have to balance the following:

- **Single reimbursement rate schedule,**
- **Access issues and long-term physician supply,**
- **Program costs.**

Premium structure for those above 317% FPL must balance:

- **Desire to encourage enrollment from ESI with**
- **Increased budget shortfall.**
  - **Premiums of $60 / month relative to costs of $350 to $450 per month.**

Getting from here to there…

Vermont currently has a very low rate of uninsured. The money to fund insurance is already in the healthcare economy.

- **A very large fraction of current coverage is sponsored by employment.**
- **How can those resources be captured?**

Who pays for ESI? Workers through foregone wages or employers through reduced profits? And what are the implications?

- **If employees realize the savings of reduced ESI costs through increased wages, increased income taxes may be suggested.**
- **If employers pocket savings, however, increased payroll of BET may be suggested.**

Evidence suggests that, in the long run, wages adjust to keep the cost of total compensation nearly the same, but…

- **What is the long run, and how do we get there?**
- **Is it affordable for families in the short term?**

Thank you!

The full report can be found at:
www.rand.org/t/RR1743

Questions?