



State of Vermont

AGENCY OF HUMAN SERVICES

Office of the Secretary
103 Main Street
Waterbury, VT, 05671-0204

September 11, 2006

Dennis G. Smith, Director
Center for Medicaid and State Operations
Centers for Medicare and Medicaid Services
200 Independence Avenue SW
Room 301H.2
Washington, DC 20201

Re: 11-W-00194/1

Dear Mr. Smith:

As you are aware, states and publicly funded health care programs face unprecedented fiscal pressures as a result of increasing program costs and demands to improve access for the many people who continue to be uninsured. In Vermont, we are fortunate that CMS has recently approved our Section 1115(a) waiver program, the Global Commitment to Health. Through this waiver, our State has been able to continue to provide health coverage for thousands of Vermonters while limiting financial exposure for our federal partners.

The original Vermont Health Access Plan (VHAP) 1115 waiver was an enormous success and enabled us to reduce the uninsured rate in Vermont to among the lowest in the nation. VHAP provides coverage to uninsured adult Vermonters up to 150 percent of Federal Poverty Level (FPL), and parents and caretaker relatives of dependent children in households with incomes up to 185 percent of FPL. The Vermont program currently offers coverage to all children living in households with incomes at or below 300 percent of FPL.

Vermont is now seeking to continue its commitment to health care reform and capitalize on the flexibility granted under the Global Commitment Demonstration in order to control program costs while expanding access to health coverage for uninsured Vermonters. This year the Vermont General Assembly passed legislation called "Health Care Affordability for Vermonters," which was signed into law by Governor Douglas on May 25, 2006. This legislation creates programs that will provide additional coverage for uninsured Vermonters, supports initiatives to improve the care of individuals with

chronic conditions, and uses the private sector to support and deliver coverage for both existing eligibility groups and newly eligible groups.

Vermont is seeking federal authority under the Global Commitment to Health Demonstration to undertake the following initiatives:

- *VHAP-ESI* – Vermont proposes to implement an Employer Sponsored Insurance (ESI) program for both existing and new VHAP enrollees. Beneficiaries will be held harmless in terms of cost and benefits compared to the regular VHAP program. The savings generated by this initiative will be used to finance coverage for additional low-income, uninsured Vermonters.
- *Expanded ESI Premium Assistance Program* – Vermont intends to make coverage more affordable for uninsured individuals with incomes up to 300 percent of FPL. Individuals who have access to coverage through their employers will have the opportunity to participate in the ESI Premium Assistance Program. Public subsidies will be available under this program to help cover the employee share of monthly premiums for employer-sponsored coverage.
- *Catamount Health Assistance Program* – Catamount Health is a broad initiative designed to make affordable commercial coverage accessible to individuals unable to obtain coverage through their employers. Covered benefits will be defined by the State and provided through commercial carriers. Catamount Health will be available to all Vermonters, regardless of income. The Catamount Health Assistance Program would provide for public subsidies toward the premiums paid under Catamount Health. The Catamount Health Assistance Program will be available to low-income uninsured Vermonters with incomes up to 300 percent of the FPL who do not have access to employer-sponsored insurance that is more cost-effective for the State.

We are requesting CMS approval to operate these initiatives within the framework of our approved Global Commitment to Health 1115(a) Demonstration. We will manage the program within the existing financial terms and conditions, so this is a request only for programmatic approval.

The Vermont Legislature also took other steps to enhance access to health care coverage. We believe the Demonstration's Special Terms and Conditions permit Vermont to make these programmatic changes without federal approval, but seek confirmation of our understanding of the Terms. These modifications include the following:

- *Recertification Requirements* – Vermont currently recertifies eligibility for certain groups at six-month intervals, while recertification occurs every twelve months for other eligibility groups. Vermont intends to modify the program requirements for VHAP, Dr. Dynasaur and other eligibility groups to require recertification every twelve months. This modification also helps to offset the operational resource demands resulting from the new citizenship verification requirements.

- *VHAP Eligibility Requirements* – Vermont intends to modify existing rules in order to extend eligibility to Vermont residents who are college students and have taken medical leave.
- *Enrollee Premiums* – Vermont intends to reduce enrollee premiums in order to promote access to affordable health coverage.
- *Chronic Care Management Program* – Vermont intends to contract with a private entity to provide chronic care management to individuals with chronic conditions and enrolled in Medicaid, VHAP, or Dr. Dynasaur.

The proposed program reform plan and other policy initiatives, when fully implemented, will have a significant impact on the number of uninsured in Vermont. It is projected that these programs can reduce the number of uninsured by nearly forty percent.

The following sections provide additional details regarding the program design and costs for VHAP-ESI, the ESI Premium Assistance Program and the Catamount Health Assistance Program.

VHAP ESI and Premium Assistance

VHAP-ESI is expected to commence for individuals who are enrolled in, or apply for coverage under, the VHAP program on or after October 1, 2007. For enrollees or applicants who have access to an approved employer-sponsored insurance plan, the premium assistance program will provide:

- A subsidy of premiums or cost-sharing amounts based on the household income of the eligible individual to ensure that the individual out-of-pocket obligations for premiums and cost-sharing amounts are substantially equivalent to or less than the annual premium and cost-sharing obligations under VHAP.
- Supplemental benefits or “wrap-around” coverage will be offered to ensure VHAP enrollees continue to receive the full scope of benefits available under VHAP. This “wrap” coverage will be provided when necessary to ensure comparable coverage between VHAP and the employer’s plan.

AHS will work with the Vermont Department of Banking, Insurance, Securities, and Health Care Administration (BISHCA) to establish criteria for approving employer-sponsored health insurance plans to ensure the plans provide comprehensive and affordable health insurance when combined with the State assistance under the waiver. At minimum, an approved employer-sponsored insurance plan would be required to conform to the following standards:

- The benefits covered by the plan must be substantially similar to the benefits covered under the certificates of coverage offered by the typical benefit plans issued by the four health insurers with the greatest number of covered lives in

the small group and association market in the State.

- The plan must include appropriate coverage of chronic conditions in a manner consistent with statewide participation by health insurers in the Vermont Blueprint for Health. This provision is intended to support the delivery of necessary care to individuals with chronic conditions, an initiative with both public and private sector participation.

AHS, which administers the existing waiver, will determine whether it is cost-effective to the State to enroll an individual in an approved employer-sponsored insurance plan with the premium assistance as compared to enrolling the individual in VHAP. If AHS determines that it is cost-effective, the beneficiary will be required to enroll in the approved employer-sponsored plan as a condition of continued premium assistance or coverage under VHAP. It is expected that AHS will determine whether to include children who are eligible for Medicaid or Dr. Dynasaur in the ESI program at their parent's option. However, AHS will not mandate participation of children in employer-sponsored insurance.

Based on federal rules, AHS currently has a program for enrolling traditional Medicaid beneficiaries in employer-sponsored coverage if it is determined to be cost effective, so the mechanisms are in place to extend this provision to individuals eligible under the waiver. A brief description of the methodology is found in Attachment 1 of this letter.

If the beneficiary is not eligible for ESI until an open enrollment period, the beneficiary will be provided benefits under the current VHAP program until the next open enrollment period offered by the employer or insurer.

Expanded ESI Premium Assistance Program

As health care costs continue to rise, many employees with access to employer-sponsored coverage are required to pay a larger share of the monthly premiums. This trend is particularly troublesome for individuals with low and moderate incomes, resulting in health coverage no longer being affordable.

The ESI Premium Assistance Program will make health coverage more affordable for low-income Vermonters (between 150 percent (adults) or 185 percent (adults with children on Dr. Dynasaur) and 300 percent FPL) who have access to employer-sponsored coverage. An individual must meet the following criteria to be eligible for the ESI Premium Assistance Program:

- a. Be an uninsured Vermont resident;
- b. Have income between 150 percent or 185 percent and 300 percent of the FPL;
- c. Have access to a cost-effective, approved employer-sponsored plan; and
- d. Be 18 years of age or older

The ESI Premium Assistance Program will provide a subsidy of premiums or

cost-sharing amounts based on the household income of the eligible individual, with greater amounts of financial assistance provided to eligible individuals with lower household income and lesser amounts of assistance provided to eligible individuals with higher household income. The amount of assistance has not been established but will be determined by state rule following program approval by CMS.

Until an approved employer-sponsored plan is required to meet the statewide standard for the Vermont Blueprint for Health (chronic care) in 2009, it is intended that the subsidy will include premium assistance and assistance to cover all cost-sharing amounts for chronic care.

As is the case with ESI for current VHAP eligibles, AHS will work with BISHCA to develop criteria for approving employer-sponsored health insurance plans to ensure the plans provide comprehensive and affordable health insurance when combined with the assistance offered under the waiver. It will be required that, at minimum, approved employer-sponsored insurance plans include:

- a. Covered benefits substantially similar, as determined by the AHS, to the benefits covered under Catamount Health; and
- b. Appropriate coverage of chronic conditions in a manner consistent with statewide participation by health insurers in the Vermont Blueprint for Health; and
- c. After statewide participation is achieved, coverage of chronic conditions substantially similar to Catamount Health.

If providing the individual with assistance to purchase Catamount Health is more cost-effective to the State than providing the individual with premium assistance to purchase the individual's approved employer-sponsored plan, the State shall enroll the individual in the Catamount Health Assistance Program.

If the employer-sponsored plan is more cost effective, an individual may purchase Catamount Health and receive Catamount Health assistance until the approved employer-sponsored plan has an open enrollment period, but the individual will be required to enroll in the approved employer-sponsored plan in order to continue to receive any assistance.

Participation in an approved employer-sponsored insurance plan with premium assistance under VHAP or Catamount Health does not disqualify an individual from VHAP if the approved employer-sponsored insurance plan is no longer available to that individual, and they meet eligibility rules for VHAP.

Catamount Health Assistance Program

In the recently adopted health reform legislation, the General Assembly created a new State-supported insurance offering called Catamount Health, which will be made

available through private sector insurers to uninsured Vermonters. The Catamount Assistance Program, which will be available to uninsured Vermonters with incomes under 300 percent FPL, is the focus of this waiver request. Attachment 2 provides additional details regarding the design of Catamount Health and the Catamount Health Assistance Program.

To be eligible for the Catamount Health Assistance Program, the individual must:

- a. Be an uninsured Vermont resident;
- b. Have income equal to or below 300 percent of the FPL;
- c. Not have access to a cost-effective, approved employer-sponsored plan
- d. Be 18 years of age or older

If an individual has access to employer-sponsored coverage that is approved for premium assistance and is determined to be cost-effective, the individual would be eligible for ESI Premium Assistance, but would not be eligible for the Catamount Health Assistance Program.

The Catamount Health Assistance Program will provide for public subsidies in order to make the Catamount Health premiums more affordable for eligible enrollees with incomes up to 300 percent of the FPL. The share of the premium the beneficiary must pay is based on income; a table of proposed beneficiary shares by income level is provided in Attachment 2.

Enrollment and Cost Projections: Impact on Budget Neutrality

The program is not scheduled to begin until October of 2007, so the first year enrollments and costs will occur in Federal Fiscal Year (FFY) 2008. Four populations are described:

1. Current VHAP beneficiaries (income up to 185 percent of FPL) who have access to ESI and who will be enrolled in a private policy if it is determined to be cost effective.
2. Individuals who apply for coverage after October of 2007 (also with incomes up to 150 percent or 185 percent of FPL), who are enrolled in ESI based on an evaluation of cost effectiveness.
3. Individuals eligible for the ESI Premium Assistance Program (incomes above 150 or 185 and up to 300 percent of FPL).
4. Individuals eligible for the Catamount Health Assistance Program (incomes above 150 or 185 and up to 300 percent of FPL).

Enrollment and cost projections are found in Attachment 3. The ESI initiative for VHAP beneficiaries serves to partially offset the costs of the program expansion.

Due to the uncertainty as to the impact of this program, the General Assembly added a provision which creates a mechanism, using the State's Emergency Board, to determine if the funds appropriated for either of these premium assistance programs are insufficient to meet the projected costs of enrolling new program participants into the appropriate program. If this determination is made, the Emergency Board is required to suspend new enrollments in the program or restrict enrollment to eligible, lower income individuals. This provision also will assist in ensuring that program expenditures remain within the limits established by the Global Commitment to Health budget neutrality agreement. This particular provision would not, however, affect eligibility for the basic VHAP program.

Modifications to the Demonstration Evaluation Design

This amendment to the Global Commitment supports the objectives of the Demonstration, as defined by the Evaluation Design. Evaluation measures that will be supported by the proposed program include the following:

- Formation of public-private partnerships
- Development of initiatives for the affordable and cost-effective delivery of healthcare
- Development of initiatives to reduce the number of uninsured Vermonters

Legislative Oversight

As is now the case with most health care program initiatives, AHS is required to submit monthly reports to the Legislative Joint Fiscal Committee, Legislative Health Access Oversight Committee, and the Legislative Commission on Health Care Reform concerning with the number of individuals enrolled in the premium assistance program, the income levels of the individuals, a description of the range and types of employer-sponsored plans that have been approved, the percentage of premium and cost-sharing amounts paid by employers whose employees participate in the premium assistance program, and the net savings or cost of the program. Also, a report is due to the Joint Fiscal Committee and Health Access Oversight Committee before November 15, 2006, estimating the costs and benefits of ESI for SFY 08. CMS will have access to these reports as they are prepared.

Public Process

The proposed program reforms were developed through the Vermont legislative process. Numerous hearings were held and testimony was provided by multiple stakeholders as part of the legislative process. Rules, which are subject to the State notice and hearing requirements, will be promulgated in order to implement the legislation.

Please let us know if you require additional information or if you would like to arrange a conference call to discuss this material. Your prompt and favorable consideration of our request will enable us to move forward with developing the infrastructure and processes

required to implement these ESI provisions on October 1, 2007. Questions or scheduling of calls should be directed to Joshua Slen, Director, Office of Vermont Health Access, at 802/879-5901.

Sincerely,

Cynthia D. LaWare
Secretary, Agency of Human Services

CC: James H. Douglas, Governor
Michael K. Smith, Secretary of Administration
Susan Besio, Director of Health Care Reform Implementation
Joshua Slen, Director, Office of Vermont Health Access
Betsy Forrest, Health Care Affordability Project Director, OVHA
Richard McGreal, Associate Regional Commissioner, CMS
Camille Dobson, Project Officer
Chong Tieng, CMS

Attachment 1: Cost Effectiveness Algorithm

If a Medicaid beneficiary has access to employer-sponsored health insurance, AHS staff uses an MMIS-based algorithm to determine if enrollment in the health insurance plan is cost effective. The policy premium amount, coinsurance and deductible amounts, and coverage type are entered in the MMIS. The resulting cost to the Medicaid program for ESI is compared to the average yearly Medicaid cost for a beneficiary of the same sex, age, and category of assistance. If the private insurance costs are less for the State, coverage in ESI is deemed cost effective. AHS is considering the possibility of moving the cost-effectiveness test into the ACCESS eligibility system, where the employer database will reside.

Attachment 2: Summary of Catamount Health

Catamount Health is a new fully insured product that will be offered through private insurers in Vermont. The Catamount Health Assistance Program offers a subsidized insurance program to Vermont residents who have been without health insurance coverage for a year or more, have income under 300 percent of FPL, and who do not have access to employer-sponsored insurance that has been approved and is cost effective. The beneficiary's share of the premium is based on income.

Catamount Health Eligibility

In order to qualify for Catamount Health, the individual would have to be currently uninsured. Uninsured would mean that the individual does not qualify for Medicare, Medicaid, VHAP, or Dr. Dynasaur (State program covering children and pregnant women), had no private insurance or employer-sponsored coverage that includes both hospital and physician services within 12 months prior to the month of application, or lost private insurance or employer-sponsored coverage during the prior 12 months because of:

- 1). loss of employment;
- 2). death of the principal insurance policyholder;
- 3). divorce or dissolution of a civil union;
- 4). no longer qualifying as a dependent under the plan of a parent or caretaker relative;
- 5). no longer qualifying for COBRA, VIPER, or other State continuation coverage; or
- 6). college or university-sponsored health insurance became unavailable to the individual because the individual graduated, took a leave of absence, or otherwise terminated studies.

The program would only be available to Vermont residents, which means an individual domiciled in Vermont as evidenced by intent to maintain a principal dwelling place in Vermont indefinitely and to return to Vermont if temporarily absent, coupled with an act or acts consistent with that intent.

Catamount Health Assistance Program Eligibility

To be eligible for premium assistance under the Catamount Health Assistance Program, the individual would have to:

- a. Be an uninsured Vermont resident as defined above;
- b. Have income up to 300 percent of the FPL;
- c. Not have access to a cost-effective, approved employer-sponsored plan;
- d. Be 18 years of age or older and not claimed on a tax return as a dependent of a resident of another state (designed to address restrict eligibility for out-of-state college students).

Participating Carriers

Insurers currently offering products in the small group market may offer Catamount Health. If necessary, the State can mandate participation by carriers. BISHCA may establish a pay-for-performance demonstration project for carriers offering Catamount Health.

Cost Sharing

The benefits to be provided in the plan are set out in the legislation creating the program. Insurers offering Catamount Health are required to provide benefit plans that are actuarially equivalent to the following, which are modeled on a PPO plan:

- A \$250.00 deductible for an individual and a \$500.00 deductible for a family for health services received in network;
- A \$500.00 deductible for an individual and a \$1,000.00 deductible for a family for health services received out of network;
- 20 percent co-insurance, in and out of network;
- \$10.00 office co-payment;
- Prescription drug coverage without a deductible, \$10.00 co-payments for generic drugs, \$30.00 co-payments for drugs on the preferred drug list, and \$50.00 co-payments for non-preferred drugs;
- Out-of-pocket maximums of \$800.00 for an individual and \$1,600.00 for a family for in-network services and \$1,500.00 for an individual and \$3,000.00 for a family for out-of-network services; and
- A waiver of the deductible and other cost-sharing payments for chronic care for individuals participating in chronic care management and for preventive care.

The legislation also set standards for provider reimbursement. It provides for payment to health care professionals at Medicare rates plus 10 percent in 2006, and thereafter increasing as per the Medicare economic index. Hospitals payments are established at 110 percent of actual costs, indexed to changes in the Medicare payment rules, with a floor of 102 per cent of actual costs.

Catamount Health will offer a chronic care management program which complies with State-established criteria and provides for reporting under the Vermont Blueprint for Health.

Premiums

Premium rates are actuarially determined. However, the Catamount Health Assistance Program will subsidize premiums in order to establish affordable individual premiums based on income. The following chart reflects the amounts individuals would contribute toward the lowest-cost Catamount Health plan. Premiums for higher-cost plans will be greater. Amounts will vary for family and two-person coverage:

INCOME (FPL)	MONTHLY PREMIUM
Below 200%	\$60
200% -225%	\$90
225% - 250%	\$110
250% - 275%	\$125
275% - 300%	\$135
Over 300%	Cost

In order to maintain the financial viability of the program, a cap on enrollment can be set by the State Emergency Board.

Attachment 3: Preliminary Summary of Enrollment and Benefits Expenditures

	FFY08	FFY09	FFY10	Total
<i>Current VHAP Enrollees</i>				
Estimated Enrollment: Current VHAP Enrolling in ESI	2,385	3,180	3,180	
Estimated Cost per Enrollee: VHAP	\$ 3,061	\$ 3,321	\$ 3,528	
Estimated Cost per Enrollee: VHAP-ESI	\$ 935	\$ 1,014	\$ 1,077	
Annual Savings per Enrollee	\$ (2,126)	\$ (2,307)	\$ (2,451)	
Expenditures: VHAP	\$ 7,299,889	\$ 10,560,780	\$ 11,219,040	
Expenditures: VHAP-ESI	\$ 2,228,783	\$ 3,224,520	\$ 3,424,860	
Net Impact on Program Expenditures	(5,071,106)	(7,336,260)	(7,794,180)	(20,201,546)
<i>New VHAP Enrollees</i>				
Estimated Enrollment: New VHAP Applicants	2,106	2,808	2,808	
Estimated Cost per Enrollee: VHAP	\$ 3,061	\$ 3,321	\$ 3,528	
Annual Savings per Enrollee (Avoided Costs)	\$ (2,126)	\$ (2,307)	\$ (2,451)	
Estimated Cost per Enrollee: VHAP-ESI	\$ 935	\$ 1,014	\$ 1,077	
Expenditures: VHAP	\$ 6,445,940	\$ 9,325,368	\$ 9,906,624	
Annual Savings (Avoided Costs)	\$ (4,477,883)	\$ (6,478,056)	\$ (6,882,408)	
Net Impact on Program Expenditures	\$ 1,968,057	\$ 2,847,312	\$ 3,024,216	\$ 7,839,585
<i>ESI Premium Assistance Program</i>				
Estimated Enrollment	1,102	1,469	1,469	
Average Subsidy per Enrollee	\$ 1,137	\$ 1,227	\$ 1,298	
Impact on Program Expenditures	\$ 1,253,258	\$ 1,802,096	\$ 1,906,762	\$ 4,962,116
<i>Catamount Health Assistance Program</i>				
Estimated Enrollment	6,771	10,499	14,488	
Average Subsidy per Enrollee	\$ 3,917	\$ 4,171	\$ 4,371	
Impact on Program Expenditures	\$ 26,519,601	\$ 43,787,662	\$ 63,327,048	\$ 133,634,310
Net Expenditures: Proposed Program Changes	\$ 24,669,810	\$ 41,100,809	\$ 60,463,846	\$ 126,234,465

Notes

- Subject to revision as enrollment, eligibility and operating estimates are refined
- Projections do not include additional administrative expenses necessary to implement and operate the program