CATASTROPHIC HEALTH EXPENSE PROTECTION PROGRAM (CHEPP)

Charles W. Poe,
Team Leader
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HUMAN RESOURCES/HUMAN SERVICES, Subcabinet

I. Executive Summary

1. CHEPP is a unique program designed to protect families from catastrophic medical expenses. It should be made more equitable and funded on a permanent basis.

2. CHEPP is not the appropriate vehicle for providing health insurance for the unemployed because CHEPP provides "after the fact" benefits. The Task Force, however, thinks the state should develop an appropriate mechanism for insuring the unemployed.

3. CHEPP should use the broader definition of income under the MA program to treat families more equitably.

4. The income levels should be adjusted to allow for past inflation. The Task Force recommends that the minimum deductible be raised to $3,000 and that families pay 25% of their first $20,000 of income, 40% of their next $10,000, and 50% of income above $30,000 as their deductible. Once they have incurred expenses above their deductible, there should be no copayment for the families.

5. The state should pay 85% of the allowable MA expenses above the family deductible.

6. Families should be able to count medical expenses incurred during the eighteen months prior to application toward their deductible, except that no medical expenses incurred before July 1, 1984, should be counted or covered by CHEPP.

7. The revised CHEPP should start on July 1, 1984.

8. The estimated cost of the revised CHEPP is $2.4 million for fiscal year 1985. The cost would be substantially higher in subsequent years as the program matures. Estimated costs for fiscal year 1986 are $5.4 million and for fiscal year 1987, $6.7 million.

9. Necessary actions include passage in the legislature, DPW revision of the CHEPP rule, writing of a new program manual for local agencies, revision of program forms and brochures, changes in automated systems, and training of local agency personnel in the revised program procedures. A complement of two full-time positions is required for DPW.

II. Background

The catastrophic Health Expense Progection Program (CHEPP) is a statefunded program designed to assist families with the payment of extraordinary medical expenses when they do not qualify for other publicly funded health care programs. Once a family incurs medical expenses greater than an annual deductible (which is based on a sliding percentage of income), CHEPP pays for 90% of the covered services for the remainder of the twelve month period. There are no resource or liquid asset limitations for eligibility, and medical expenses incurred after July 1, 1977, may be used to satisfy the deductible. Because the appropriation for CHEPP was vetoed during the 1981 legislative session, the program has not been funded since July 1, 1981, and no new cases have been accepted. During the 1983 legislative session, a rider on an appropriation bill suspended the program for fiscal year 1984. The legislature will consider reinstitution of CHEPP during the 1984 session.

During the four years that CHEPP was in operation, $33.5 million were appropriated, but only $12,977,281 were spent. The surplus monies were applied to the deficits in other health care programs. It appears likely that CHEPP will be funded in some form during the 1984 legislative session. While this analysis is not the result of an initiative outside the usual policy development process; it is cognizant of the widespread support for CHEPP. The Task Force recommends that significant changes be made in CHEPP and that the program be re-established.

The subcabinet charged the Task Force with advising whether CHEPP should be continued and, if so, in what form. The CHEPP Task Force was comprised of the following members:

Chair: Charles W. Poe, Jr., Assistant Commissioner, Income Maintenance, Department of Public Welfare.

Department of Public Welfare: Nancy Feldman, Patricia Gaylord, and Catherine Griffin.

Department of Finance: Melvin Jones

Department of Health: Kent Peterson

Department of Commerce: John Ingrassia

State Planning Agency: Darrell Shreve

Council for the Handicapped: Kurt Strom

III. Findings and Conclusions

1. CHEPP exists to prevent families from being forced to liquidate nearly all of their assets in order to pay for catastrophic medical expenses. Without CHEPP, many families might be forced to spend down their assets to the resource limits of MA or GAMC. The Task Force has found no evidence, however, that indicates how frequently this has happened after CHEPP was unfunded in 1981. Patients may have liquidated assets, or they may have worked out long-term payment schedules, borrowed money to pay their bills, declared bankruptcy, or simply refused to pay. Providers may have collected some payments. found other sources of income, written off expenses as bad debts, or transferred patients to other providers (e.g., county hospitals).

2. CHEPP is not the appropriate mechanism for providing health insurance for the unemployed. Because the unemployed frequently do not have health insurance, any significant medical expense can be "catastrophic" but CHEPP was intended to alleviate the economic consequences of very expensive illnesses. A separate method for providing health insurance for the unemployed should be studied and developed. The re-establishment of CHEPP, however, should improve the capacity of providers to give free care to the unemployed by financing a portion of their potential bad debts.

3. A program to encourage the insurance industry to define large groups that would include the self-employed should be developed. Such groups would spread the risk and reduce the rates for adequate health coverage to levels more affordable than the single-family rates most self-employed people now face. Such groups could conceivably be defined through membership in farmer's associations or cooperatives, business associations or chambers of commerce, credit unions, for example. (Some such groups must already exist, but if so, they are not inclusive enough or widely enough known, for many of our self-employed citizens have not felt able to purchase adequate health coverage.) Such a program would not entirely remove the need for catastrophic protection, but should be explored on its own merits.

4. Expenses associated with cancer, heart disease, or major accidents can easily become a financial burden even for families with strong health insurance because of coinsurance provisions or the exhaustion of benefits.

5. Although preventive health measures remain underfunded, the Task Force feels that it is reasonable to finance catastrophic expenses. We encourage the State, however, to increase funding for preventive health measures because of their demonstrated cost-effectiveness.

6. CHEPP should not be a replacement for other publicly funded health care programs or health insurance. Persons eligible for publicly funded health care programs like MA or GAMC should not be permitted to use CHEPP, and CHEPP should contain a "reward" for persons with health insurance. (Because CHEPP is entirely retrospective, we speak of a "reward" rather than an "incentive" for the consumer.)

7. Under CHEPP, the state pays 90% of expenses beyond the deductible, and the patient pays 10%. We find this inequitable for the patient because the copayment is based on the severity of the illness, not on the ability to pay. We find 100% reimbursement to the provider to be unwise because it

removes the financial risk of catastrophic expenses totally from the provider, thereby eliminating the provider's incentive to contain costs in these types of cases.

8. CHEPP uses the family's income for the past calendar year, but some account of current income should be taken because the illness may have reduced the family's earning power.

9. CHEPP's definition of income (federal adjusted gross income) permits some families to exclude significant amounts of income. This inequity favors groups like the self-employed in comparison to groups like salaried workers or wage earners.

10. CHEPP does not explicitly consider a family's assets. Hence a family with large assets can receive as much assistance as another family with identical income but much smaller assets. The appropriate methodology requires further analysis study. One alternative consideration is that used by the college financial aid system to determine how much a family can reasonably contribute to the college expenses of a family member. This model uses a flexible measure of income and assets to determine the financial condition of a family. This option should reduce overall costs slightly. Because it would likely open up second-year eligibility for some recipients, the cost savings would be limited.

11. The income levels and the minimum deductible have not been raised in several years, not even to adjust for inflation.

IV. Recommendations

1. CHEPP should be restored and funded, but with significant modifications. If the program cannot be funded, it should be eliminated.

2. Persons who are eligible for Medical Assistance or other publicly funded health care programs should not be permitted to use CHEPP.

3. There should be a minimum deductible of incurred medical expenses that must be met before CHEPP begins payment. We recommend that the minimum deductible be raised from $2,500 to $3,000.

4. Assets could be considered in determining the deductible amount for a family, so that the definition of a catastrophic level of expenses would be the same for families in comparable financial situations. Because of the short time available, the Task Force was unable to recommend particular incorporation of assets into the CHEPP deductible.

5. The income categories used in CHEPP should be changed to adjust for inflation. We recommend that a family's income deductible be the sum of twenty-five percent of their income below $20,000, 40% of their income between $20,000 and $30,000;and fifty percent of their income above $30,000.

6. In order to improve the equity in the determination of income, we recommend that the definition of income used in the Medical Assistance program be adopted in CHEPP. This definition is broader than the current CHEPP definition of "federal adjusted gross income."

7. We recommend that income, as defined above, be the average of the family's income for the past calendar year and the family's income as projected for the current year under MA policies and procedures, but with no MA disregards. The applicable MA income standard should be deducted from this amount to adjust for family size.

8. Medical expenses for the eighteen months prior to application should be counted for the family's deductible.

9. Health insurance premiums paid by the family should be covered medical expenses. As a reward for families that have purchased health insurance, we recommend that 150% of the premium be counted as a medical expense, provided that the health insurance was used for the illnesses and conditions for which CHEPP payment is sought. In no case should the premium medical expense be greater than the minimum deductible.

10. Claims by counties against the estates of CHEPP beneficiaries should be permitted, and the counties should be able to retain a proportion of the money recouped.

11. We recommend that CHEPP pay no more than 85% of the allowable MA reimbursement for medical expenses above the family's total deductible. As a condition of receiving payment, each provider must agree to accept CHEPP's payment as payment in full for these expenses. There should be no copayment for a family, other than the deductible established on the basis of their income.

12. Because CHEPP is a state-mandated program administered at the county level, we recommend that the state pay 50% of the administrative costs of the counties.

13. In order to phase in CHEPP in an orderly and prudent manner, we recommend that no medical expenses incurred prior to the effective date of the legislation be covered. We recommend that the legislation with the changes proposed above be effective on July 1, 1984. The estimated cost of the changes would be $2.4 million for fiscal year 1985. The costs would be substantially higher in the next biennium as families have longer periods of time to incur medical expenses. Estimated costs for fiscal year 1986 are $5.4 million and costs for fiscal year 1987 are estimated to be $6.7 million. In absence of these proposed changes, CHEPP costs would be $11 million higher over the three year period.

CHEPP

Continuation of CHEPP without Modifications	
Date	Annual Cost
FY 1985	$7,612,000
FY 1986	$8,635,000
FY 1987	$9,330,000
TOTAL	$25,577,000
DIFFERENCE	$11,123,000

Revised CHEPP as proposed by CHEPP Issue Team	
Date	Annual Cost
FY 1985	$2,376,000
FY 1986	$5,424,000
FY 1987	$6,654,000
TOTAL	$14,454,000

A Bill For An Act

Be it enacted by the Legislature of the State of Minnesota, section 62E.52 is amended to read:

Subd. 2. "Eligible person" means any person who is a resident of Minnesota and who is not otherwise eligible for Medical Assistance or General Assistance Medical Care, and while a resident of Minnesota, has been found by the Commissioner to have incurred an obligation to pay:

1.) Qualified expenses for him/herself and any dependents in any 12 consective months exceeding:

a.) ~~40~~ 25 percent of his household income up to ~~$15,000~~ $20,000, plus ~~50~~ 40 percent of income between ~~$15,000~~ $20,000 and ~~$25,000~~ $30,000, plus ~~60~~ 50 percent of income in excess of ~~$25,000~~ $30,000; or

b.) ~~$2,500~~ $3,000 whichever is greater; or

2.) Qualified nursing home expenses for him/herself and any dependents in any 12 consecutive months exceeding 20 percent of his household income.

Subd. 3. "Qualified expense" means any charge incurred, subsequent to July 1, ~~1977~~ 1984, and within 18 months preceeding the month of application, for a health service which is included in the list of covered services described in section 62E.06, subdivision 1 for which no third party is liable plus up to 150 percent of the cost of qualified health insurance premiums in an amount not to exceed $3,000.

Subd. 3. a. "Qualified nursing home expense" includes any charge incurred for nursing home services after ~~36~~ 12 months of continuous care provided to a person 64 years of age or younger in long-term care facilities.

Subd. 5. "Household income" means the average gross net income of ~~an eligible person~~ applicant and all his the applicant's dependents 23 years of age or older responsible relatives for the calendar year preceeding the year in which the application is filed pursuant to section 62E.53.

Subd. 6. "Gross Average Net Income" means income as computed in determining Medical Assistance eligibility under MS 256B (with no MA disregards) as defined in section ~~290A.03~~, subdivision ~~3~~ using an average of the previous calendar year's and the current calendar year's income and deducting the applicable MA income standard for the size of the applicant's family.

Subd. 9. "Applicant" means the person for whom assistance is requested.

Subd. 10. "Responsible Relatives" means spouses and parents of minor children.

Section 62E.53 is amended to read:

Subd. 1. Any person who believes that he/she is or will become an eligible person may submit an application for state assistance to the commissioner. The application shall include a listing of expenses incurred prior to the date of the application and shall designate the date on which the month for computing expenses began. No applicant seeking assistance under sections 62E.51 to 62E.55 may list as an expense in his/her application any medical bills incurred in order to become eligible for Medical Assistance, under Chapter 256B or General Assistance Medical Care under Chapter 437.

Subd. 2. If the commissioner determines that an applicant is an eligible person, he shall pay:

1.) 90 percent All qualified expenses of the eligible person and his/her dependents in excess of the deductible as defined in 62E.52, subdivision 2 (1) (a), for the remainder of the twelve month period.

~~a.) 40 percent of his household income under $15,000 plus 50 percent of his household income between $15,500 and $25,000, plus 60 percent of his household income in excess of $25,000, or~~

b.) $2,500, whichever is greater.

Section 265.53, Subd. 3 is amended to read:

Subd. 3. The commissioner shall make payment for qualified expenses based on Medical Assistance allowable charges, except for inpatient hospital expenses. Inpatient hospital payments shall be based on each hospital's Medical Assistance per diem rate as established by 12 MCAR, sections 2.05401 to 2.05403. The Medical Assistance allowable charge or per diem rate shall be rateably reduced by 15%. This reduction may not be billed to the eligible person or his/her family and no action may be taken by the health care provider to collect the reduced amount from the eligible person. The commissioner shall by rule establish procedures for determining whether and to what extent qualified expenses are reasonable charges. Unless otherwise provided for by rule charges shall be reviewed for reasonableness by the same procedures used to review and limit reimbursement under the provisions of chapter 256B. If the commissioner determines that the charge for a health service is excessive, he may limit his payment to the reasonable charge for that service. If the commissioner determines that a health service provided to an eligible person was not medically necessary, he may refuse to pay for the service. The commissioner may contract with a review organization as defined in section 145.61, in making any determinations as to whether or not a charge is excessive and in making any determination as to whether or not a service was medically necessary. If the commissioner in accordance with this

section refuses to pay all or a part of the charge for a health service, the unpaid portion of the charge shall be deemed to be an unconscionable fee, against the public policy of this state, and unenforceable in any action brought for the recovery of moneys owed.

Section 62E.55 is amended to read:

Appeals. The final decision of the commissioner denying an application for status as an eligible person or denying all or part of the charges for a health service may be appealed by any interested party pursuant to Chapter 15 Section 256.045.

Section 62E.532 Claims Against Estates

If a person is found eligible under 62E.51 to 62E.55 and has payments made in his/her behalf for qualified expenses, then, upon his/her death the total amount paid for the person under sections 62E.51 to 62E.55, without interest, shall be filed as a claim against his/her estate. This claim is warranted the priority of an expense of last illness and may only be claimed if there is no surviving spouse, or no surviving child who is under the age of 21 or who is blind or totally disabled. Any statute of limitation that purports to limit any county agency or the commissioner from obtaining reimbursement for payments made under sections 62E.51 to 62E.55 shall not apply. A county agency may retain 25 percent of any amounts collected from

estates under this section that are directly attributed to county effort.

Appropriations. The sum of $ is appropriated from the general fund to the department of public welfare for the fiscal year ending June 30, 1985 for the purposes of sections 62E.51 to 62E.55. This appropriation may also be used for persons who were eligible on or before June 30, 1981 and whose payments were denied due to lack of funds. The sum of $60,000 is appropriated in order to reimburse local agencies for 50 percent of CHEPP related administrative costs.

The Commissioner is requesting $120,000 for state administrative costs, including two staff positions, office equipment, data processing, training expenses, and other costs necessary to reinstate the program.

Minnesota
Catastrophic Health Expense Protection Program
Analysis of Changes Proposed by the CHEPP Task Force

Preliminary Projections

DPW's original projection of CHEPP costs for the F.Y. 1984-1985 biennium (September 30, 1982) started from the base of F.Y. 1981 CHEPP caseload and costs, because this was the last year of full funding of the program. It was projected that over the next four fiscal years CHEPP caseload would increase by 4% annually, and that average monthly cost per case would increase by 9% annually. These assumptions were judgemental and were based on the expectation that observed growth in CHEPP caseload and costs from F.Y. 1979 to F.Y. 1981 would have tapered off with the maturation of the CHEPP program. Average monthly caseload had increased by 117% from F.Y. 1979 to F.Y. 1980 and by 42% from F.Y. 1980 to F.Y. 1981. Average monthly cost per case had increased by 19.4% from F.Y. 1979 to F.Y. 1981.

These expectations still seem reasonable based on CHEPP payments of $3,913,948 in F.Y. 1982, when payments were limited to services prior to July 1, 1981 and cases with applications filed prior to that date, compared with a forecast of $5,229,000. For this reason, this analysis is based on the September, 1982 forecast for F.Y. 1985 and projects values for F.Y. 1986 and 1987 based on the same rates of increase.

Catastrophic Health Expense Protection Program
Projected Caseload and Costs

	Average Monthly		
	Cases	Cost Per Case	Annual Cost
F.Y. 1985	344	$1,844	$ 7,612,000
F.Y. 1986	358	2,010	8,635,000
F.Y. 1987	372	2,090	9,330,000

Because the base of these projections is F.Y. 1981 experience, estimates of the effects of changes done in this analysis work from the CHEPP policies in effect for F.Y. 1981 payments, which are different in some cases from current statute.

Please note also that these projections, and all forecasts regarding CHEPP should be viewed only as approximations of what can reasonably be expected, based on very limited past experience with the program. Because CHEPP costs are driven by a small number of cases with very high expenses, CHEPP costs can be expected to show great variability from year to year.

Effects of the 18 Month Limit

A spot check of CHEPP applicants was done during F.Y. 1981 to determine the starting points of the 12 month eligibility periods selected by applicants. Based on this, 75% of the eligibility periods began within twelve

months of the date of application and 87% within 18 months. Thus 13% of eligibility periods selected without regard for a time limit are assumed to begin earlier than the 18 month limit. Because most of these eligibility periods would overlap the 18 month cutoff, the 18 month limit is assumed to reduce expenditures by one-half of 13% or 6.5%.

	Original Projection	Savings	Adjusted Projection
F.Y. 1985	$7,612,000	$ 495,000	$7,117,000
F.Y. 1986	8,635,000	561,000	8,074,000
F.Y. 1987	9,330,000	606,000	8,724,000

Effects of the July 1, 1984 Limit

Qualifying services for CHEPP deductibles and CHEPP payment would be limited to services rendered on or after July 1, 1984. This limit is assumed to reduce payments proportionally as the number of months (preceding the supposed month of application) in which qualified services can occur is reduced below 18. Thus potential applications in July, 1984 are assumed to have no qualified services. Applications in August are assumed to have 1/18th of what they would otherwise have, applications in September 2/18ths, applications in October 3/18ths, etc. On this assumption potential costs for F.Y. 1985 are reduced by 56% and costs for F.Y. 1986 by 10%.

	Projection from Above	Savings	Adjusted Projection
F.Y. 1985	$7,117,000	$3,986,000	$3,131,000
F.Y. 1986	8,074,000	807,000	7,267,000
F.Y. 1987	8,724,000	0	8,724,000

Effects of the $3,000 Minimum Deductible

This change would affect all cases with deductibles less than $3,000 at the F.Y. 1981 rates. 85% of all cases fell in this category in F.Y. 1981: 5% of cases had no deductible, 43% had an average deductible of $750, 34% had a deductible of $2,000, and 3% had a deductible of $2,750.

The following table calculates the savings expected if this change had been applied to the F.Y. 1981 caseload of 1,156 unduplicated annual cases:

Average Deductible in F.Y. 1981	Increase in Deductible	F.Y. 1981 Cases Affected	F.Y. 1981 Savings
$ 0	$3,000	58	$ 174,000
750	2,250	497	1,118,000
2,000	1,000	393	393,000
2,750	250	35	9,000
Totals		983	$1,694,000

Projected savings for F.Y. 1985-1987 are calculated proportionally from the F.Y. 1981 savings, using F.Y. 1981 average monthly caseload and projected caseloads for F.Y. 1985-1987. Caseloads for these years are first adjusted to allow for expenditure reductions calculated above.

	Original Caseload Projection	Adjustment Factor	(A) Adjusted Caseload	(B) A - F.Y. 1981 Caseload	Projected Savings (B x $1,694,000)
F.Y. 1985	344	.411	141	.48	$ 813,000
F.Y. 1986	358	.883	316	1.07	1,813,000
F.Y. 1987	372	.935	348	1.18	1,999,000

Effects of Increasing the Deductible from 20/25/30% to 25/40/50%

This change would affect cases to the extent that it increased their deductible above the $3,000 level already calculated for the increased minimum deductible. Cases with incomes less than $12,000 (approximately 76%) would not be affected. Cases with incomes from $12,000 to $14,999 (approximately 9%) would have their deductibles increased by an average of $750 above the $3,000 level. Cases with incomes from $15,000 up (about 15%) would have their deductibles increase by an average of $1,000 over the $3,000 level.

The following calculation gives the expected savings from application of this policy to the F.Y. 1981 caseload of 1,156 unduplicated cases:

Increase in Deductible	F.Y. 1981 Cases Affected	F.Y. 1981 Savings
$ 750	104	$ 78,000
1,000	174	174,000
		$152,000

This amount is adjusted proportionally for F.Y. 1985-1987 caseloads using the same adjustment factors as employed above (.48, 1.07, and 1.18 respectively). This gives savings of $73,000 for F.Y. 1985, $163,000 for F.Y. 1986, and $179,000 for F.Y. 1987.

Effects of Using M.A. Net Income Instead of Federal Adjusted Gross Income

Only 15% of CHEPP cases would be affected, since 85% of cases have their deductible set by the $3,000 minimum. The effect on the 15% would be limited to the cost of reducing their deductibles to the $3,000 minimum. These costs should be exactly equal to the savings calculated in the preceding section: $73,000 for F.Y. 1985, $163,000 for F.Y. 1986, $179,000 for F.Y. 1987.

Some savings would accrue from increased deductibles for self-employed individuals, but the effect would be very limited because the great majority of these cases would have deductibles set by the $3,000 minimum.

Effects of Payment of 85% of Qualified Expenses

It is proposed that the program pay 85% of qualified expenses rather than 90% as in current law. This would reduce costs to 94.4% of these otherwise projected (.85/.90 = .944).

	Net Projection After Deductible Savings	Net Projection Reduced to 94.4%	Savings
F.Y. 1985	$2,318,000	$2,188,000	$130,000
F.Y. 1986	5,454,000	5,149,000	305,000
F.Y. 1987	6,725,000	6,348,000	377,000

Summary of Costs/Savings*

	F.Y. 1985	F.Y. 1986	F.Y. 1987
Preliminary Projections	$7,612,000	$8,635,000	$9,330,000
18 Month Limit	(495,000)	(561,000)	(606,000)
July 1, 1984 Limit	(3,986,000)	(807,000)	-
$3,000 Minimur Deductitle	(813,000)	(1,813,000)	(1,999,000)
25/40/50%	(73,000)	(163,000)	(179,000)
M.A. Income Policies	73,000	163,000	179,000
85% Payment	(130,000)	(305,000)	(377,000)
Net Projection	$2,188,000	$5,149,000	$6,348,000
Rounded to	$2,200,000	$5,100,000	$6,300,000

* These figures do not include administrative costs

Department of Public Welfare
Income Maintenance Bureau
Reports and Statistics
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