JOHN R. KASICH
GOVERNOR
STATE OF OHIO

January 18, 2017

The Honorable Kevin McCarthy
House Majority Leader
Congress of the United States
Washington, D.C. 20515

Dear Majority Leader McCarthy:

As Congress considers reforms to improve the health care system, we appreciate the opportunity to provide input and recommendations based on our experience overseeing the health insurance market and Medicaid program in Ohio. In this letter, we support a thoughtful strategy to repeal and replace the Affordable Care Act (ACA), recommend specific options to replace the ACA, and propose that value-based state innovation be supported as part of the replacement to achieve real solutions to control costs.

1. Repeal and Replace Obamacare

The ACA is unpopular, in large part, because it promised and failed to actually make health care coverage more affordable. Not surprisingly, the law has failed because it is based on a bureaucratic, government-centered vision of American health care. The problem it promised to address is real – since 1975 health insurance premiums have been growing faster than per capita income, making health insurance increasingly unaffordable for many Americans. By 2010, there was an urgent call for reform, which the Obama Administration leveraged into a federal takeover of state insurance markets. While more Americans are now covered than prior to Obamacare, this overreach has not driven down the cost of health care.

We consistently opposed the ACA and have called for repealing and replacing the law with more pragmatic, market-oriented solutions that lower costs, allow individuals to make their own health care decisions, and do not harm our job creators.

We understand Congressional Republicans are planning to use budget reconciliation to defund the ACA. A similar bill passed in 2015 would have repealed the funding for the exchange subsidies and Medicaid expansion, the individual and employer mandates, and various taxes that fund the ACA. ***We support a single repeal-and-replace***

package, but are concerned that a strategy to repeal now then later replace the ACA could have serious consequences.

Our first concern of delaying the replacement is that the health insurance market, without knowing in advance what replacement means, is likely to react to repeal in ways that destabilize insurance markets and reverse recent coverage gains. For example, if the mandate to buy insurance is removed while leaving guaranteed issue in place, more insurance plans will contemplate exiting the individual market heading into 2018.

Second, depending on how the bill is written and when the repeal is implemented, the funding that financed exchange subsidies and the Medicaid expansion could go away and not be available to finance an alternative. If that happens, it would require Congress to find new money to pay for the Republican replacement when it takes effect, including refundable tax credits or any alternative proposed by a state.

Third, if the market destabilizes or there are no funds for a replacement, then millions of Americans will face uncertainty about the status of the coverage they gained under the ACA. In Ohio, one million residents gained coverage through the federally-run Exchange or Medicaid expansion, including 500,000 Ohioans with mental health needs, and 25,000 Ohio veterans and 12,000 of their family members. Any replacement should take into consideration these individuals' current arrangements, make transitions as orderly as possible, and demonstrate why the replacement is better than what individuals have now.

Finally, we are concerned the ACA continues to trap and hold the nation in a narrow discussion about coverage. We must repair the damage caused by the ACA – that cannot happen soon enough – but then we need to move on to address the underlying costs that led to the current crisis, and confront the reality that too much of what we buy is of questionable value. In the wake of ACA regulations, we need to reassert market solutions – conservative, economically sensible, and respectful of individual freedom and the limits of government – that improve health system performance and the health of our nation while holding down the cost of care.

2. Recommendations

Currently, nine out of ten Ohioans are enrolled in a stable source of health coverage either through their employer (52 percent), Medicaid (21 percent) and Medicare (15 percent). Rising costs are a concern throughout the system, and no corner of the market escaped the regulatory reach of the ACA. However, the most urgent need for coverage-related reforms relates to individuals and small employers caught in the volatility of the insurance market and the remaining uninsured.

Commercial Market

More than 150 million Americans – 6 million Ohioans – are currently signed up with employer-based plans. It makes sense to leave these individuals where they are, in their employer plans, as reforms in the individual market are implemented. Over time, there may be advantages for individuals in employer groups to switch to the individual market (e.g., portable health insurance and lower-cost coverage) but workers and their employers, not the government, should make that decision.

We support the House *Better Way* plan to replace the individual mandate and guaranteed issue with continuous coverage protections, relax the individual market age rating requirements, allow dependents up to age 26 to stay on their parents' plan, expand health savings accounts and contribution limits, and set an upper limit on the amount of employer-paid premiums eligible for the existing federal tax break at a level that ensures job-based coverage continues unchanged for most health insurance plans.

The timing of these reforms is important. The immediate issue is for payers and providers to understand how the transition period will unfold. Under a repeal and replace package, the transition is manageable – the repeal can be timed to take effect with reforms that are known in advance. However, if Congress chooses to repeal now then later replace, the individual market could deteriorate if budget-related provisions (e.g., individual mandate) are repealed while non-budgetary provisions (e.g., guaranteed issue) remain because there would be no funding to support the system in transition.

Ohio's pre-ACA market was competitive and strong – enrollment in employer-sponsored plans was higher than the national average and the uninsured rate was lower. Important consumer protections such as a continuous coverage law that prohibited insurers from excluding preexisting conditions and coverage for dependents up to age 26 were already in place. Instead of allowing our state the flexibility to fix specific challenges, the ACA made sweeping changes that have negatively impacted broad segments of the insurance market.

Medicaid Market

More than 62 million Americans – three million Ohioans – are enrolled in Medicaid. It covers almost half of all the births in the country, about one-third of all children, many low-income working families, and the oldest, sickest, frailest and most medically complex patients in the nation. The bulk of Medicaid's costs come from its dominant role in delivering mental health benefits, a variety of services for individuals with physical, developmental and intellectual disabilities, and long term care services for millions of Medicare beneficiaries.

Six years ago, Ohio effectively repealed its fee-for-service Medicaid program and replaced it with private sector managed care plans. Annual program growth slowed from 8.9 percent (2009-2011) to 3.3 percent (2012-2013). This low rate of growth made it possible for the state to responsibly extend Medicaid coverage to 700,000 previously uninsured Ohioans. This was accomplished while *decreasing the number of state employees needed to run the program* from 911 in 2013 to 600 today, as well as *holding per member spending flat over the past six years*.

Thirty-one states – more than half of them with Republican Governors – extended Medicaid coverage to childless adults under the ACA. Those that did are experiencing significant positive benefits. In Ohio, we recently completed one of the nation's most comprehensive assessments of a state Medicaid expansion.[1] Ohioans who became eligible for coverage through the expansion reported that it was easier for them to keep or find work, and most reported better health and financial security as a result of obtaining coverage. Other findings include:

- a large decline in the uninsured rate to the lowest level on record for low-income adults,
- most enrollees (89 percent) were uninsured prior to obtaining Medicaid coverage,
- improved access to care was associated with a reduction in unmet medical needs,
- high-cost emergency department use decreased,
- many enrollees (27 percent) detected previously unknown chronic health conditions,
- health status improved for most (48 percent) and worsened for very few (4 percent),
- many enrollees (32 percent) screened positive for depression or anxiety disorders,
- it was easier for enrollees to buy food (59 percent) and pay rent (48 percent), and
- the percentage of enrollees with medical debt fell by nearly half (from 56 to 31 percent).

We strongly recommend states be granted the flexibility to retain the adult Medicaid coverage expansion and federal matching percentage. However, if changes are required, then we recommend rolling back rather than repealing the expansion. For example, Congress could reduce the income eligibility limit to 100 percent of the federal poverty level.

We further recommend retaining several ACA reforms that allowed for better care coordination across Medicaid and Medicare. For example, the ACA authorized states to create Medicare-Medicaid financial alignment programs. Based on early evidence in

[1] Ohio Medicaid Group VIII Assessment: a report to the Ohio General Assembly (December 2016).

Ohio and other states that these programs improve care and save money, they should be retained. Also, Congress should repeal the prohibition on states that prevents them from requiring enrollment in Dual Eligible Special Needs Plans and Medicaid managed care for Medicare-Medicaid dual eligibles. This change would further improve care coordination for the enrollees who need it most and generate significant additional savings for Medicare.

Also, we understand Congress may consider a block grant to replace all Medicaid financing. The House *Better Way* plan, for example, would provide each state a per capita allotment for major beneficiary groups, or allow a state to convert the combined allotment into a block grant. As House Budget Chairman in the 1990s, I supported Medicaid block grants, and still do, but only if the design details are known in advance so states can assess their responsibilities and risk. The difference between a good block grant and a dangerous block grant is in the detail. For example, it is important for states to know how current funding commitments are going to be allocated differently among the states, how financial support will grow in later years, and what level of current federal guarantees and minimum standards for Medicaid will continue to apply.

Finally, it is important to note that the ACA made several changes that were requested by states to improve Medicaid program performance. We recommend these changes be retained, not repealed. For example, the ACA gave the states the authority to simplify income eligibility standards, increase prescription drug rebates, strengthen protections against fraud and abuse, and make it easier to support seniors and people with disabilities in their own home instead of a nursing home.[2] Most states have already implemented these changes, in some cases by enacting new laws and investing in information technology system upgrades. Repealing these provisions now would be unnecessarily expensive and disruptive to state operations.

3. Pay for Value

Coverage is important, and coverage reforms can help contain costs, but eventually our nation needs to confront the underlying market dynamics that are driving unsustainable increases in the cost of care. There is a growing, bipartisan consensus that changing the way we pay for care is critical to decreasing costs and improving health outcomes. State-led initiatives are showing early signs of success at reversing the trajectory of ballooning health care cost growth. This is true in Ohio, where we are reducing the incentive to overuse unnecessary services within high-cost episodes of care and increasing access to comprehensive primary care. These projects reset the basic rules of health care competition to improve health while holding down the total cost of care – and could serve as a foundation for conservative reforms going forward.

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[2] The National Association of Medicaid Directors prepared a comprehensive list of ACA provisions to retain.

One of the challenges in achieving meaningful payment reform is the lack of coordination across federal agencies. Many states have increased the effectiveness and efficiency of their programs simply by coordinating across multiple jurisdictions. In Ohio, we created the Governor's Office of Health Transformation to align strategic planning and budget priorities across all of the state's health and human services. We recommend a similar approach to align priorities across HHS, CMS, SAMHSA, CDC, VA, AHRQ, HUD, DOL, OMB, and others.

Concluding Thoughts

Proponents of the ACA created the impression that many Americans are trapped by preexisting conditions, and are sick and unable to afford good health insurance. They leveraged this view into a domino-effect of regulations: guaranteed issue to address preexisting conditions, an individual mandate to mitigate the cost of guaranteed issue, a federal subsidy to mitigate the cost of the individual mandate, and tax increases to pay for the subsidy. In truth, most working Americans already had secure coverage, including many millions with expensive health conditions.

Based on our hands-on experience with these programs, we recommend Congress quickly repeal and replace the ACA, in a single package, and then move on to address the underlying market dynamics that are driving up the cost of care. We have a head start on these issues in Ohio, and look forward to any opportunity to work with Congress and the incoming Administration to advance the same conservative, value-driven, market-based reforms that are improving health and holding down the total cost of care in Ohio.

Again, thank you for the invitation to provide input. We look forward to working with you to replace the ACA in a way that gives all Americans a fair shot at quality, affordable health care.

Sincerely,

John R. Kasich
Governor
State of Ohio

Mary Taylor
Lieutenant Governor, Director
Ohio Department of Insurance

cc: Hon. Paul Ryan, Speaker, U.S. House of Representatives
Hon. Kevin Brady, Chairman, House Committee on Ways and Means
Hon. Greg Walden, Chairman, House Committee on Energy and Commerce
Hon. Virginia Foxx, Chairman, House Committee on Education and the Workforce