



# Tracking ACA Implementation in California

**Version 5: January 2014**

This guide tracks the California implementation of the Affordable Care Act (ACA), whose provisions touch on most aspects of the health care system, including cost, quality, and access. It describes the law's requirements for public and private coverage and breaks each into implementation objectives — some complete, others underway, and some not yet begun.

The law requires, with few exceptions, that people obtain health insurance, and it provides new structures and supports to help them do so. Today about 1 in 5 nonelderly Californians is uninsured. This ratio is expected to fall to 1 in 10 by 2016 because of the ACA. Those who obtain health insurance should gain not only financial security, but also improved access to care, and through it, better health outcomes.

This guide is organized by these broad ACA goals and implementation objectives:

**Goal 1: Expand coverage in public programs.** The law expands Medi-Cal coverage to low-income adults and children. This should improve access to care for the neediest Californians.

- Objective 1: Execute required, and assess optional, Medi-Cal eligibility changes
- Objective 2: Determine coverage options for low-income individuals
- Objective 3: Use financial incentives to improve access and quality

**Goal 2: Simplify and streamline eligibility and enrollment.** States must provide a means by which people can quickly learn if they are eligible for state-funded programs or subsidized private health plans, apply, and enroll.

- Objective 1: Improve the consumer experience
- Objective 2: Promote and support enrollment

**Goal 3: Protect health insurance consumers.** The law prohibits insurance companies from denying coverage based on pre-existing conditions or from placing lifetime limits on coverage, and assures that products sold meet standards for comprehensiveness.

- Objective 1: Enforce new health insurance coverage rules
- Objective 2: Ensure health insurance premium value
- Objective 3: Limit the impact of adverse risk on rate payers

**Goal 4: Create a new marketplace for private health insurance.** California's Health Benefit Exchange will make shopping for health insurance easier, make the costs and benefits of plans more understandable, and administer subsidies to qualifying applicants.

- Objective 1: Operate the Exchange
- Objective 2: Offer coverage through qualified health plans

## **State Action & Lead, Status, and Implementation Date**

For each objective, this guide provides a brief discussion and a table that enumerates the state action and lead(s), status, and implementation date. Along with the California administration and legislature, responsible state leads are:

- The California Department of Health Care Services (DHCS)
- The California Department of Insurance (CDI)
- The California Department of Managed Health Care (DMHC)
- The California Health and Human Services Agency (CHHS)
- The California Health Benefit Exchange (CHBE, the Exchange, and Covered California)
- The Managed Risk Medical Insurance Board (MRMIB)

## **About This Guide**

CHCF contracted with the management consulting firm Leading Resources Inc. (LRI) to develop content for this guide. LRI principals Eric Douglas and Karin Bloomer solicited and incorporated input from executive staff of DHCS, the Exchange, DMHC, MRMIB, and CDI. Jonah Frohlich and Alice Lam of Manatt Health Solutions; Deborah Kelch of Kelch Policy Group; and independent consultant Lesley Cummings also provided comments.

This is the fourth and final quarterly update of this guide, initially posted in November 2012. Information in this final version is complete as of January 8, 2014.

Send questions and comments about this resource to Marian Mulkey, director of CHCF's Health Reform and Public Programs Initiative at [mmulkey@chcf.org](mailto:mmulkey@chcf.org).

## **Goal 1: Expand Coverage in Public Programs**

The Affordable Care Act provides for a broad expansion of Medicaid eligibility to improve access to health care services. Medi-Cal — California's Medicaid program — is projected to expand by 1.2 to 1.6 million low-income Californians, with many more eligible but not enrolled. Maximizing expansion will require consensus on a number of complex policy and financing decisions and coordination among an array of new and existing programs and providers.

Progress toward Goal 1 will be tracked under these objectives:

- Objective 1: Execute required, and assess optional, Medi-Cal eligibility changes
- Objective 2: Determine coverage options for low-income individuals
- Objective 3: Use financial incentives to improve access and quality

## Goal 1, Objective 1: Execute Required, and Assess Optional, Medi-Cal Eligibility Changes

Today, the income limits by which people qualify for Medi-Cal vary by age and status. Infants and pregnant women are eligible if household income is under 200% of the federal poverty level (FPL). Children ages 1 to 5 and ages 6 to 19 in households up to 133% and 100% of FPL, respectively, are eligible for Medi-Cal. Low-income parents, elderly people, and people with disabilities also qualify, but childless adults outside those categories typically are not eligible for Medi-Cal no matter their income.

Starting January 2014, California must expand Medi-Cal eligibility by adopting new income-counting rules and eliminating the asset test for non-elderly individuals in most eligibility categories. This primarily affects parents of dependent children. Furthermore, Medi-Cal coverage must be extended to young adults under 26 who were in foster care when they turned 18. The US Supreme Court's 2012 ruling made expanding Medi-Cal to non-elderly adults with incomes up to 133% of FPL (annual income of about \$15,000 for a single person or \$31,000 for a family of four), including childless adults, an option for states.

As a bridge to changes under national health reform, California has pursued a set of policies allowing an early expansion of coverage to approximately 600,000 low-income uninsured Californians via the Low Income Health Program (LIHP). Governor Brown committed to the Medi-Cal expansion in his health care reform proposal as part of the 2013-14 budget. The proposal lays out two options for expanding Medi-Cal: state-based or county-based expansion. The administration convened the Health Care Reform Stakeholders Group on February 1 to begin discussing the two options. In a special session on health care reform, key legislation was passed and approved by the Governor on June 27, 2013. These include:

- SBX1 1, Chapter 4 of 2013 (Hernandez), which requires DHCS to seek approval to provide the existing Medi-Cal benefit package to the optional expansion population, excluding long term services and supports unless required by federal law or subject to a federally approved asset test. The bill also expands the Medi-Cal benefit package for the existing population (and for the ACA expansion population) to include mental health and substance use disorder services required under the essential health benefit (EHB) legislation adopted in 2012 that are not currently covered by Medi-Cal, excluding behavioral health treatment services.
- ABX1 1, Chapter 3 of 2013 (Perez), which enacts statutory changes necessary to implement the coverage expansion, eligibility, simplified enrollment benefits, and retention provisions of ACA.

Key tasks still facing the state are projecting the adequacy of access to care for people who will be eligible for Medi-Cal on January 1, 2014 (current and newly eligible), and assessing policy and financing options for the newly eligible population. To preserve federal funding, the state will have to adhere to federal Maintenance of Effort requirements that preclude imposing more-restrictive requirements on current Medicaid and Children's Health Insurance Program (CHIP) eligibility and enrollment until 2014 for adults and 2019 for children.

State Action & Lead	Status	Implementation Date
1. Conduct early Medi-Cal expansion via county Low Income Health Programs. Lead: DHCS	More than 630,000 Californians from LIHP became Medi-Cal members on January 1.  Medi-Cal immediately began serving the former LIHP members, which is a group	7/1/2011 First LIHPs implemented

State Action & Lead	Status	Implementation Date
	<p>of uninsured, childless adults ages 19 to 64, and parent and caretaker relatives, all with incomes below 138% of FPL. They will receive health care, mental health, and substance use services from California's statewide network of Medi-Cal managed care plans. The vast majority of former LIHP members will remain with the same medical provider that they saw under LIHP.</p> <p>About 24,000 LIHP members have incomes too high to qualify for Medi-Cal. They may apply for coverage through Covered California, the state's health benefit exchange.</p>	
<p>2. Define benchmark benefits for newly eligible adults. Lead: DHCS</p>	<p>Legislation enacted (SBX1 1, Chapter 4) that establishes the existing Medi-Cal benefit package as the benefit package for the expansion population.</p> <p>The ACA ensures all Medi-Cal health plans offer a comprehensive package of services, known as Essential Health Benefits (EHB). The 10 EHBs include the following categories: ambulatory services; emergency services; hospitalization; maternity and newborn care; mental health and substance use disorder services including behavioral health treatment; prescription drugs; rehabilitative and habilitative services and devices; laboratory services; preventive and wellness services; chronic disease management; and pediatric services (including oral and vision care). Medi-Cal meets these requirements.</p> <p>DHCS submitted an Alternative Benefit Plan State Plan Amendment (SPA) on 12/30/2013 and was able to align the expansion benefits with the Medi-Cal program. DHCS continues to work with CMS on the SPA language and anticipates approval of the expansion soon.</p>	<p>1/1/2014</p>
<p>3. Assess policy, financing, and program changes necessary for optional Medi-Cal expansion to childless adults.</p>	<p>Legislation enacted (ABX1 1, Chapter 3) adopts the state option of expanding Medi-Cal coverage to childless adults, ages 19-64. Open enrollment for Medi-Cal coverage for these individuals begins</p>	<p>1/1/2014</p>

State Action & Lead	Status	Implementation Date
Lead: DHCS	<p>10/1/2013.</p> <p>See resource documents posted to the DHCS website regarding the Medi-Cal expansion: fiscal assumptions, conversion of estimated total member months to average monthly eligibles, 2013-14 enrollment projections (page 410), and a three-year cost summary.</p>	
<p>4. Implement required eligibility rule changes, including expanding coverage to former foster children up to age 26.</p> <p>Lead: DHCS</p>	<p>Legislation enacted (ABX1 1, Chapter 3) that implements required eligibility rule changes.</p> <p>DHCS provides county public social services agencies with All County Welfare Directors Letters (ACWDLs) and Medi-Cal Eligibility Division Information Letters (MEDILs) regarding new or changed policies and/or procedures used in determining eligibility for Medi-Cal benefits. More information can be found on the <a href="#">DHCS website</a>.</p>	1/1/2014
<p>5. Observe Medicaid/CHIP Maintenance of Effort (MOE).</p> <p>Lead: DHCS, MRMIB</p>	Ongoing.	<p>1/1/2014 For adults</p> <p>1/1/2019 For children</p>
<p>6. Complete Access Report and Plan.</p> <p>Lead: DHCS</p>	<p>Access Report and Plan submitted to CMS 1/1/2013. Quarterly analysis includes an evaluation of four areas identified as providing a means of detecting the early signs of health care access disruptions. The areas evaluated include changes in Medi-Cal participation, physician supply, service utilization rates per 1,000 member months, and beneficiary help line feedback.</p>	1/1/2013
<p>7. Transition LIHP enrollees into Medi-Cal and Covered California.</p> <p>Lead: DHCS</p>	<p>Activities reflected in the LIHP Transition Plan are completed. DHCS implemented a new DHCS Member and DHCS Partner website for the LIHP transition. Enacted legislation (ABX1 1, Chapter 3) outlines the transition of LIHP enrollees into Medi-Cal.</p> <p>Over 630,000 LIHP consumers transitioned to Medi-Cal on 1/1/2014.</p>	1/1/2014

## Goal 1, Objective 2: Determine Coverage Options for Low-Income Individuals

While the Medicaid expansion paves a path for covering the poorest families and individuals in California — those with household incomes up to 133% of FPL — the ACA provides options regarding how to cover those just above this income threshold.

California has already addressed one of these options — that pertaining to enrollees in the state's Children's Health Insurance Program (CHIP), called Healthy Families. Under the ACA, about 183,000 of the roughly 863,000 Healthy Families enrollees — those with incomes between 100% and 133% of FPL — are subsumed into the expanded Medi-Cal program. This presented a policy question of what to do about the remaining children in Healthy Families — keep them in Healthy Families, move them into Medi-Cal, or offer the Exchange as the vehicle for health insurance. Under legislation enacted in 2012, the administration and legislature elected to move these children into the Medi-Cal program over one year beginning January 2012.

The federal Centers for Medicare and Medicaid Services (CMS) has put off until 2014 the release of guidance about another ACA option — a Basic Health Program (BHP) — which would provide affordable coverage for individuals with incomes between 134% and 200% of FPL who would otherwise be eligible for premium subsidies and cost-sharing reductions in the Exchange. It could also cover legal immigrants residing in the US less than five years and below 133% of FPL who are currently eligible for state-only Medi-Cal. Covered California is seeking federal approval on a proposal to establish a three-year Bridge Program Demonstration Project that would test the effectiveness of Bridge products to promote continuity of coverage, reduce the disruptions associated with churn, and create access to more affordable coverage. The proposal provides a strategy that builds on federal guidance and was endorsed by the Covered California board. The administration sponsored legislation (SBX1 3) to authorize the Bridge Program. The legislation was authored by Senator Hernandez and was enacted on July 11, 2013.

If the demonstration project is approved, an implementation effort will be required to modify the California Healthcare Eligibility, Enrollment and Retention System (CalHEERS) to support the new enrollment options, to review and certify Medi-Cal managed care plans to participate, and to negotiate rates. Upon federal approval for the project, Covered California and DHCS will develop an implementation timeline in consultation with the CalHEERS staff and stakeholders.

State Action & Lead	Status	Implementation Date
1. Transition Healthy Families enrollees to Medi-Cal. Lead: DHCS, MRMIB	<p>The last phase of the transition occurred on 11/1/2013.</p> <p>As of 11/1/2013, 751,293 children have been transitioned into Medi-Cal in Phase 1 (A, B, and C), Phase 2, Phase 3, and Phases 4A and 4B.</p> <p>Since 2/15/2013, DHCS has submitted monthly Monitoring Reports to CMS and the Legislature. A final comprehensive report is due to the Legislature 90 days</p>	1/1/2013

after transition. Additionally, monthly monitoring reports will continue to be submitted to CMS through the reporting period of 6/2014.

2. Launch Basic Health Program for individuals with incomes between 134% and 200% of FPL. Lead: Covered California, DHCS

Covered California is in the process of making a bridge plan product available, as a qualified health plan to specified eligible individuals.

1/1/2014

SBX1 3 (Chapter 5) signed by Governor Brown on 7/11/2013.

## Goal 1, Objective 3: Use Financial Incentives to Improve Access and Quality

The ACA offers enhanced federal funding for public programs. To accommodate Medicaid expansion, the ACA allows for increased reimbursement for some primary care services, bringing payment rates up to Medicare levels.

**Primary care rate enhancement (required).** This provision initiates 100% federal financing in 2013 and 2014 to raise Medi-Cal reimbursement rates to parity with Medicare for certain evaluation and management services provided by primary care physicians. This is an approximately 120% increase in reimbursement for these services. Access to physicians is a special concern in Medicaid because fewer physicians accept Medicaid patients relative to Medicare and privately insured patients, and low Medicaid reimbursement rates are often cited as the main reason. California has the 47th lowest Medicaid reimbursement rates to physicians in the United States.

**Preventive services without copays (optional).** This provision offers a one-percentage point increase in federal matching payments if the state covers certain recommended immunizations and preventive services without charging Medicaid beneficiaries a share of the cost. California is pursuing this option.

State Action & Lead	Status	Implementation Date
1. Increase reimbursements to primary care providers. Lead: DHCS	<p>The form for providers to self-attest their eligibility, along with additional resources, posted on DHCS website on 7/22/2013.</p> <p>CMS approved DHCS' State Plan Amendment 10/24/2013. Interim payments to fee-for-service providers began 11/4/2013 with the exception of the Child Health and Disability Program (CHDP), Independent Non-Medical Practitioners who bill Medi-Cal directly, and crossovers claims. Upon completion of necessary system changes, settlement of payment increases for geographic-specific CHDP vaccine rates will be made. Additionally, final settlement of payments owed but not reimbursed by interim payments will be made to reconcile to the appropriate geographic-specific rate.</p> <p>DHCS has been updating providers about the increase and the physician self-attestation process on its website. DHCS has posted the 2013 Medicare rates to be used to calculate the increase. It is estimated that updated</p>	10/2013

crosswalks to reflect the 2014 Medicare rates will posted by 8/2014.

The ACA 1202 Primary Care Provider enhancements have been implemented for the managed care organizations through the end of CY 2013, with the exception of July - December 2013 for County Organized Health Systems (COHS) counties and October - December 2013 for Two Plan Model (TPM) counties. The 2014 reimbursements, as well as the outstanding retroactive 2013 enhancements, are estimated to be paid in the latter half of 2014.

2. Leverage increased federal match for preventive services.  
Lead: DHCS

State Plan Amendment 13-014 submitted to CMS on 3/28/2013 was approved on 11/7/2013 with an effective date of 1/1/2013 to claim the 1% FMAP increase.

1/1/2013

## **Goal 2: Simplify and Streamline Eligibility and Enrollment**

Expanding health insurance coverage will necessitate a consumer-friendly means for applying to and enrolling in subsidized coverage options. To that end, the Affordable Care Act requires a "no wrong door" solution that supports application, eligibility determination, and enrollment by way of the Internet, phone, and mail, as well as in person. This approach should also simplify and streamline the eligibility criteria for Medi-Cal and new coverage options. If implemented effectively, a consumer-friendly enrollment process will help millions of Californians find and keep insurance, and will help the coverage programs attract and retain enrollees with a wide range of income levels and health statuses.

In California today, Medi-Cal eligibility determination and enrollment are the responsibilities of the 58 counties, which use three different Statewide Automated Welfare Systems (SAWS). Most Medi-Cal applications are handled in person at county social services offices. A phone-based application is available through a statewide contractor for Healthy Families and Medi-Cal for Children as well as an online application, Health-e-App Public Access. Online application is available for Medi-Cal on a limited basis via the county SAWS systems. Enrollment help is offered by Certified Application Assistants, typically located at community-based organizations, and many medical providers. Eligibility determination, program and plan enrollment, re-enrollment, and case management for Medi-Cal and Exchange programs will be supported by different platforms, making coordination among these systems of paramount importance.

Progress toward Goal 2 will be tracked under these objectives:

- Objective 1: Improve the consumer experience
- Objective 2: Promote and support enrollment

## Goal 2, Objective 1: Improve the Consumer Experience

Improving the consumer experience will mean ensuring: smooth hand-offs among state and county customer service representatives in the eligibility and enrollment processes, a seamless experience for families whose members may qualify for different programs, easy transitions for those whose eligibility status changes, and consumer-friendly decision support for applicants.

**Create a streamlined eligibility and enrollment process.** The ACA requires integrated and simplified processes for eligibility determination and enrollment that provide a first-class consumer experience. Consumers must be able to apply for public programs and coverage in a state’s health benefit exchange (both subsidized and unsubsidized) online, by phone, by mail, or in person. DHCS and the Exchange (named Covered California), in collaboration with the California Health and Human Services Agency (CHHS) and the Managed Risk Medical Insurance Board (MRMIB), have engaged Accenture to develop the California Healthcare Eligibility, Enrollment, and Retention System (CalHEERS) to serve as a centralized tool for determining eligibility for and enrolling people in health insurance affordability programs; for comparing health plan benefits, cost sharing, and quality; and ultimately for enrolling in plans. To improve consumer understanding of new coverage programs prior to the release of CalHEERS, Covered California launched [www.coveredca.com](http://www.coveredca.com), which offers fact sheets, a subsidy calculator, and a phone number for consumer questions. The website transitioned to the full CalHEERS enrollment portal in October 2013.

**Use a simpler method to determine income eligibility.** Today, Medi-Cal eligibility thresholds vary depending on applicants' medical and financial circumstances. Beginning in 2014, federal law requires that eligibility for the majority of those seeking coverage through Medi-Cal and Covered California be established using a single income standard. This change will simplify the application process and unify eligibility rules across insurance programs to the extent possible. Importantly, the use of an assets test for Medi-Cal eligibility will be eliminated for most applicants.

State Action & Lead	Status	Implementation Date
1. Create integrated and streamlined process for eligibility and enrollment. Leads: Covered California, DHCS	CalHEERS launched. Site supports ability to shop anonymously with a tax credit calculator. The site also has a provider directory, which allows consumers to search providers in their network. Other site capabilities continue to evolve.  DHCS and Covered California developed the “Single Streamlined Application” (SSApp) form, which is available in multiple languages on the DHCS website.	10/1/2013 Open enrollment began for coverage effective 1/1/2014
2. Coordinate the technical platforms of eligibility and enrollment systems. Leads: Covered California, DHCS, MRMIB, CHHS	CalHEERS launched. CalHEERS can determine likely eligibility for Medi-Cal, at which point application information is transferred to counties and their automated welfare systems for final determination and case management.	10/1/2013 Open enrollment began for coverage effective 1/1/2014

State Action & Lead	Status	Implementation Date
3. Conform California law and policy to federal requirements for income eligibility, electronic data matching, self-attestation, etc., and make other policy changes to streamline eligibility systems. Leads: DHCS, Covered California	Legislation enacted in 2013 (ABX1 1, Chapter 3 and SBX1 1, Chapter 4).	1/1/2014

## Goal 2, Objective 2: Promote and Support Enrollment

Robust enrollment in the public and private marketplaces for health insurance coverage is an essential underpinning to achieve the ACA's goals. As federal mandates requiring coverage come into effect, and new public and private insurance options are introduced into the market, consumers will need help identifying and understanding their options and enrolling. California is responding to this need in two main ways: (1) by establishing an Enrollment Assistance Program to reach diverse populations and help them enroll in Covered California and Medi-Cal; and (2) by planning outreach and marketing activities to ensure that Californians are aware of newly available coverage programs.

**Navigators and Covered California Certified Enrollment Counselors.** The federal law requires state exchanges to administer grants for "Navigators" and provides guidance on their roles and responsibilities but leaves states discretion in designing their plan for consumer assistance. State exchanges are also permitted – but not required – to have in-person assister programs, and have broad discretion to define their roles. Covered California has a combined "Enrollment Assistance Program" that includes both Certified Enrollment Counselors and Navigators. The Enrollment Assistance Program trains and certifies all Certified Enrollment Counselors. These counselors are compensated on a fee-for-enrollment basis using federal grant dollars, while Navigators are paid through a grant structure using Covered California operating costs.

**Covered California Certified Insurance Agents.** Another way that consumers and small-business people get assistance is through the use of health insurance agents. Agents are required to take a training course to become Covered California Certified Insurance Agents and sell Covered California health plans. In the individual market, Certified Insurance Agents are paid directly by carriers with the same commissions as non-Covered California business. In the Small Business Health Option Program (SHOP), Certified Insurance Agents are paid by Covered California at market competitive commissions. Certified Insurance Agents are also not allowed to provide payments or other valuable consideration to Covered California Certified Educators, Certified Enrollment Counselors, and other community-based groups for referrals and/or enrollment services.

**Outreach.** Covered California, in concert with DHCS and MRMIB, has also established a statewide marketing, outreach, and education program to maximize enrollment — including subsidized coverage in the individual marketplace and Small Business Health Option Program (SHOP), Medi-Cal, as well as for individuals who can purchase coverage without subsidies. The campaign involves community-based organizations and other nongovernmental organizations educating people about new coverage options. The first Covered California formal outreach activity is the outreach and education grant program. Covered California awarded grants to 48 organizations seeking to reach over 9 million consumers and more than 200,000 small businesses in all 58 California counties. These organizations will reach consumers in 13 languages. Covered California's paid media campaign, including print, radio, and television, launched in summer 2013.

State Action & Lead	Status	Implementation Date
1. Establish and launch an Enrollment Assistance Program to help people apply for coverage. Leads: Covered California, DHCS	Counselors recruited Q3 2013; counselor application approval conducted 8/2013 and 9/2013; counselor training conducted beginning 8/2013. As of 1/2014, Covered California had received over 1,400 applications for Certified Enrollment	10/2013 Enrollment assistance began

State Action & Lead	Status	Implementation Date
	Entities.	
<p>2. Conduct marketing campaign and outreach and education grant program.</p> <p>Leads: Covered California, DHCS</p>	<p>Branding, messaging, and marketing materials in development; first outreach and education grant awards announced 5/14/2013; \$43 million in federal funding budgeted over 2013-14, \$3 million of which will be devoted solely to SHOP outreach efforts.</p> <p>Television ads began airing on 9/2/2013 in three test markets: Chico/Redding, Sacramento, and San Diego. Statewide television, radio, print, and social media marketing fully implemented 10/1/2013.</p> <p>DHCS, with the support of philanthropic contributions, will allocate some \$24 million for Medi-Cal outreach and enrollment planning no later than 2/1/2014.</p>	<p>5/2013 Consumer outreach began</p> <p>8/2013 Paid media campaign launched</p>

## Goal 3: Protect Health Insurance Consumers

The Affordable Care Act includes a number of provisions that reform the health insurance market, with particular emphasis on coverage sold to individuals and small employers. These reforms occur in two phases (in 2010 and 2014) and offer a host of consumer protections, including those that remove discrimination in coverage rules, ensure value for consumers' premium dollars, and mitigate risk in order to assure a stable market.

Although the ACA establishes new federal rules for health insurance consumer protections, it generally looks to states for implementation and enforcement through existing entities. For California, this means implementation roles for both the Department of Managed Health Care (DMHC) and the California Department of Insurance (CDI), which regulate portions of the health insurance industry. California generally assigns regulatory responsibility to DMHC and CDI through implementing legislation.

Progress toward Goal 3 will be tracked under these objectives:

- Objective 1: Enforce new health insurance coverage rules
- Objective 2: Ensure health insurance premium value
- Objective 3: Limit the impact of adverse risk on rate payers

## Goal 3, Objective 1: Enforce New Health Insurance Coverage Rules

The ACA creates a number of market rules to be enforced at the state level. Consumer protections that took effect in 2010 include:

- Guaranteed coverage for children under 19 regardless of health status.
- Expanded coverage for young adults on parent's or guardian's plan up to age 26.
- Creation of a temporary state-based, high-risk coverage program for people who have been turned down for private individual coverage because of their health status.
- Prohibition of coverage rescission (cancellation with retroactive effect) except for fraud or intentional misrepresentation.
- No lifetime benefit limits and phased elimination of most annual benefit limits.

If individuals and small businesses maintain coverage under the same "grandfathered" health plan they had in March 2010, this coverage is exempted from some ACA requirements, so long as certain aspects of the plan remain unchanged.

Consumer protections that will take effect in 2014 include:

- Guaranteed access to coverage for adults regardless of health status, including a prohibition on denying coverage because of health status, medical history, and other related factors.
- No annual limits on essential benefits (except for grandfathered plans in effect as of March 23, 2010).
- Premium rate variation limited to geographic differences, family size, and age within specified limits.

Prior to passage of the ACA, California provided few consumer protections for coverage sold to individuals. Before January 1, 2014, health insurance issuers could deny coverage or charge higher premiums to individuals based on health history. California limits the use of pre-existing condition limits and requires annual renewal of coverage regardless of health status or claims experience.

State Action & Lead	Status	Implementation Date
1. Establish the Pre-Existing Condition Insurance Plan (PCIP). Lead: MRMIB	Statutory authority established in 2010 (SB 227, Chapter 31 and AB 1887, Chapter 32).	6/29/2010
2. Transition PCIP enrollees out of the expiring program and into Covered California or individual private market. Leads: MRMIB, Covered California	In July, operation of PCIP was transferred to the feds (HHS), which is working with Covered California to coordinate the transition of enrollees to the Exchange. HHS sent a first notice to PCIP enrollees in 9/2013. More notices will be sent informing consumers of their Covered California options. In 12/2013, HHS extended PCIP through January 2014.	12/31/2013
3. Establish state oversight programs to ensure adherence to 2010 consumer protections. Leads: DMHC, CDI	Multiple state bills enacted in 2010; program established and compliance oversight ongoing.	9/23/2010

State Action & Lead	Status	Implementation Date
4. Establish state oversight programs to ensure adherence to 2014 consumer protections. Leads: Legislature, DMHC, CDI	Legislation enacted for small group reform in 2012 (AB 1083, Chapter 852). Individual coverage reform enacted 5/9/2013 (SBX1 2, Chapter 2). <u>Legislation enacted for out-of-pocket maximums, small group deductible limits, and actuarial value in 2013 (SB 639, Chapter 316).</u>	1/1/2014

## Goal 3, Objective 2: Ensure Health Insurance Premium Value

The Affordable Care Act includes provisions intended to ensure that health plans provide value to their enrollees. These provisions include: (1) establishing a minimum set of "essential health benefits" (EHBs) for individual and small employer coverage, (2) subjecting proposed health insurance premium increases to state review, and (3) ensuring that health plans spend a minimum percentage of premiums on health care services (known as the medical loss ratio).

**Essential health benefits.** Under the ACA, individual and small employer policies (unless grandfathered) must cover a minimum set of benefits in 10 categories: ambulatory patient services; emergency services; hospitalization; maternity and newborn care; mental health and substance use disorder services, including behavioral health treatment; prescription drugs; rehabilitative and habilitative services and devices; laboratory services; preventive and wellness services and chronic disease management; and pediatric services, including oral and vision care. The federal law requires the Secretary of Health and Human Services to further define covered benefits. Final federal regulations released February 20, 2013, define essential health benefits and related terms, and describe how states should ensure plan compliance (78 Fed Reg. 12834).

In California, health plans subject to DMHC regulation must cover all medically necessary basic health care services, but plans overseen by CDI do not have a minimum benefit requirement. However, beginning in 2014, individual and small group plans both in and outside Covered California will be required to provide basic health care services as part of essential health benefits, regardless of whether they are subject to DMHC or CDI jurisdiction.

**Premium rate review.** Since January 2011, California law requires insurance carriers to file all individual and small-group rate increases with regulators at least 60 days before taking effect. As of September 2011, insurers seeking rate increases of 10% or more for non-grandfathered plans in the individual and small-group markets are required to publicly disclose and justify proposed premium rate increases, subject to review by state regulators. The DMHC and CDI make rate filing information publicly available and review premium increases for "unreasonableness." California law does not authorize either DMHC or CDI to deny premium increases. In future years, the federal Center for Consumer Information and Insurance Oversight (CCIIO) will set state-by-state premium rate review thresholds using data that reflect insurance and health cost trends in each state. CMS proposed rules on November 26, 2012, that outline additional requirements for state rate review and collection of rate filing information (77 Fed. Reg. 70584).

**Minimum medical loss ratios.** States must enforce the ACA's minimum medical loss ratio (MLR) standards, which differ by type of coverage. For small-group and individual coverage, health plans must spend 80 cents out of every premium dollar on medical claims and activities that improve the quality of care (an 80% MLR). No more than 20 cents of each premium dollar can be used to pay overhead expenses, such as marketing, profits, salaries, administrative costs, and agent commissions. For large group coverage, the federal MLR is 85%. In August 2012, health insurers issued the first premium rebates to consumers as a result of these federal and state rules.

State Action & Lead	Status	Implementation Date
<p>1. Implement a premium rate review process to determine if health plans' proposed premium rate increases are not unreasonable. Leads: DMHC, CDI</p>	<p>Statutory authority established in 2010 (SB 1163, Chapter 661); DMHC and CDI received federal grants to support rate reviews; premium rate review and consumer education process ongoing.</p>	<p>1/1/2011</p>
<p>2. Enforce medical loss ratio. Leads: DMHC, CDI</p>	<p>Statutory authority enacted in 2011 (SB 51, Chapter 644); oversight of health insurers' adherence to MLR ongoing.</p>	<p>6/1/2012</p>
<p>3. Select a benchmark plan to establish a standardized set of essential health benefits that must be met by a QHP or other issuer in individual and small-group health care markets. Leads: Legislature, DMHC, CDI</p>	<p>Benchmark plan established via statutory authority in 2012 (SB 951, Chapter 866 and AB 1453, Chapter 754).</p>	<p>1/1/2014</p>
<p>4. Establish state oversight programs to ensure that health insurers provide EHB coverage consistent with state and federal requirements for individuals and small employers. Leads: Legislature, DMHC, CDI</p>	<p>CDI and DMHC adopted emergency regulations in 6/2013 and 7/2013 clarifying specific benefits required as part of California EHBs. Regulators reviewed EHB filings submitted pursuant to Emergency EHB Regulations in summer 2013. DMHC plans required to resubmit EHB filings for new products and amendments. As of 1/2014, both agencies are in the process of adopting final regulations to replace emergency EHB regulations.</p>	<p>1/1/2014</p>

## Goal 3, Objective 3: Limit the Impact of Adverse Risk on Rate Payers

Several ACA provisions address the potential problem of adverse selection. If states' health insurance exchanges or the private market attracts a disproportionate number of less healthy individuals, premiums will grow increasingly unaffordable, and health plan participation may suffer. The individual mandate is one strategy aimed at getting people across the health spectrum into coverage to better balance risks and costs. Three ACA programs address additional potential adverse selection: re-insurance, risk adjustment, and federal risk corridors. In March 2013, CMS adopted its final rule related to the risk adjustment, re-insurance, and risk corridors programs (78 Fed. Reg. 15409 and 15541).

**Transitional re-insurance.** Re-insurance is secondary insurance purchased by a health plan typically to cover costs in extreme individual cases. The ACA establishes a re-insurance program for the early years of reform to limit the financial risk that health plans will face as they and the market adjust to new circumstances. The program will collect funds from 2014 through 2016 and will remain active for as long as necessary to pay out the funds collected, but not beyond 2018. States can administer their own re-insurance or opt in to the US Department of Health and Human Services (HHS) program.

**Risk adjustment.** Risk adjustment attempts to reduce or eliminate premium differences among health plans that result solely from unbalanced member risk in the individual and small group market. Under this program, health plans with below-average actuarial risk (lower health care claims) will pay an assessment that then supports additional payments to those health plans and issuers with above-average actuarial risk (higher health care claims). Any state operating its own exchange may also run its own risk adjustment program; otherwise, the federal government will.

**Risk corridors.** The ACA provides for transitional aggregate risk-sharing mechanisms, called "risk corridors," that will redistribute funds from qualified health plans with large profits to those with large losses from 2014 through 2016. HHS will administer this program.

Today, California does not have any state-administered re-insurance or risk-adjustment programs for private coverage. If California establishes its own re-insurance program, it must contract with at least one "applicable re-insurance entity" (ARE) to collect contributions and could opt to modify the federal benefit and payment parameters.

State Action & Lead	Status	Implementation Date
1. Determine whether to administer transitional re-insurance program. Leads: Legislature and administration	State legislation authorizing state administration failed in 2012; the federal government will administer this program pursuant to final rules effective 4/30/2013.	1/1/2014
2. Determine whether to administer risk adjustment program. Leads: Legislature and administration	State legislation authorizing state administration failed in 2012; the federal government will administer this program pursuant to final rules effective 4/30/2013.	1/1/2014

## **Goal 4: Create a New Marketplace for Private Health Insurance**

A cornerstone of the Affordable Care Act is the establishment of state-based health insurance exchanges, intended to be competitive, organized marketplaces where consumers and small businesses can comparison shop and buy health insurance based on price, benefits, and quality. Through exchanges low-income individuals ineligible for public coverage will qualify for federal subsidies and cost sharing.

The ACA and subsequent federal decisions prescribe the eligibility rules, certification process for selecting qualified health plans, administration of subsidies, consumer assistance, and other basic functions of state exchanges. States choosing to establish an exchange are eligible for federal grants to support development and operation through 2014. If a state chooses not to administer an exchange, the federal government will.

California has moved quickly to establish the California Health Benefit Exchange, named "Covered California."

Progress toward Goal 4 will be tracked under these objectives:

- Objective 1: Operate the Exchange
- Objective 2: Offer coverage through qualified health plans

## Goal 4, Objective 1: Operate the Exchange

With the help of federal funds for planning and implementation, Covered California received conditional federal government certification on January 3, 2013, and is working with the federal CCIIO to attain full certification. Covered California must establish policies, procedures, and systems for eligibility and enrollment; health plan selection and management; finance and accounting; information technology, privacy, and security; and consumer and stakeholder engagement and support.

Launching an exchange is a daunting challenge in the context of significant insurance market upheaval and public program eligibility changes. For example, Covered California must continue to determine how to interface with federal and state data sources to administer premium tax credits and cost-sharing reductions. It must continue to develop policies and procedures for working with the federal government in the administration of exemptions from the individual insurance mandate. Ultimately, Covered California must look beyond 2014 to January 2015, by which time it must become self-supporting and sustainable through assessments paid by participating health plans.

State Action & Lead	Status	Implementation Date
1. Decide to operate a state Health Benefit Exchange rather than rely on a federal program. Leads: Legislature and Administration	Statutory authority enacted in 2010 (AB 1602, Chapter 1605 and SB 900, Chapter 659).	1/1/2011
2. Apply for and use federal grants to support state's planning and establishment of an exchange. Leads: CHHS, Covered California	To date, four federal grants awarded to California to support planning and operations: \$1 million planning grant (10/2010–9/2011), \$39 million Level 1.1 establishment grant (8/2011–8/2012), \$196.5 million Level 1.2 establishment grant (8/2012–6/2013), and \$674 million Level 2.0 establishment grant (6/2013–12/2014). A \$155 million request for supplemental federal funding for outreach was awarded in 1/2014.	10/1/2010
3. Obtain federal certification for Covered California by demonstrating sufficient progress in building policies, procedures, and systems. Lead: Covered California	"Exchange Blueprint" application for certification submitted to the federal government on 12/14/2012; conditional certification granted on 1/3/2013. Implementation reviews occurred on 9/23/2013 and 12/5/2013, with final certification pending.	1/1/2013
4. Perform all federally required duties related to determining eligibility for premium tax credits and reduced cost sharing. Lead: Covered California	CalHEERS launched 10/1/2013 for open enrollment. Covered California staff continue to work with DHCS and counties to refine Service Center policies and processes.	10/1/2013
5. Administer certificates of exemption from the individual	CMS is responsible for making the determinations for certificates of	1/1/2014

State Action & Lead	Status	Implementation Date
mandate to buy health insurance. Lead: Covered California	exemption and appeals of these determinations. The exemption application will be made available for public comment and, once finalized, will be posted on <a href="http://www.healthcare.gov">www.healthcare.gov</a> for individuals to download and complete.	
6. Begin operation of the Exchange. Lead: Covered California	Development in progress, as noted by related state actions.	1/1/2014
7. Demonstrate financial self-sufficiency. Lead: Covered California	Initial sustainability plan draft submitted with "Exchange Blueprint" application on 12/14/2012 for federal certification. Revisions and improvements to sustainability plan continue as enrollment statistics are updated.	1/1/2015

## Goal 4, Objective 2: Offer Coverage Through Qualified Health Plans

The ACA requires exchanges to select and offer coverage through "qualified health plans" (QHPs) certified by the exchange and to monitor QHP coverage and quality. Exchanges must offer a choice of QHPs at each of five federally specified coverage levels (platinum, gold, silver, bronze, and catastrophic) to individuals, as well as through the Small Business Health Options Program (SHOP). QHP selection must adhere to specific standards, accreditation, and quality rating and measurement processes. Federal law also directs health plans to reduce cost sharing on essential health benefits for individuals living at or below 250% of FPL in a silver-level QHP. Furthermore, premium tax credits will be extended to individuals living at or below 400% of FPL. These qualified health plans sold through Covered California are called "Covered California health insurance plans."

The state law that established Covered California gave the board the option to standardize benefits of health plans offered through Covered California. In February 2013, Covered California announced it will require all participating health plans to offer standardized benefits to consumers. Standard designs will help consumers compare the full array of benefits each plan will feature. Covered California selected 11 health insurance plans to make available to California consumers. Covered California also includes physicians and hospitals affiliated with many of the state's leading academic health systems, 6 of the 17 Centers for Medicare and Medicaid Services Shared Savings Accountable Care Organizations, and 5 of the 6 Centers for Medicare and Medicaid Services Pioneer Accountable Care Organizations.

State Action & Lead	Status	Implementation Date
1. Determine and approve cost-sharing provisions for Covered California health insurance plans. Lead: Covered California	Board action taken on 3/21/2013 to standardize health benefits in Covered California.	10/1/2013
2. Select and offer Covered California health insurance plans in the Individual and SHOP marketplaces. Lead: Covered California	Health plans available through Covered California's individual marketplace announced 5/20/2013 and updated 10/2013; dental plans announced 6/25/2013; and available SHOP marketplace health plans announced 8/1/2013 for open enrollment on 10/1/2013.	10/1/2013
3. Establish policies and operations for SHOP. Lead: Covered California	Policy decision made to implement employer offerings/employee choice of plans in SHOP; Pinnacle Claims Management selected to manage SHOP administrative functions.	10/1/2013

# Notes & Resources

## I. Federal Guidance Required

The Affordable Care Act is being implemented in a variety of ways — through new programs, grants, demonstration projects, regulations, and guidance documents. The latter provides important details about how to implement key ACA provisions. For example, in March 2012 the US Department of Health and Human Services (HHS) issued guidance on establishing state exchanges, qualified health plans, and standards for employer plans.

In an August 2012 report, [Medicaid Expansion: States' Implementation of the Patient Protection and Affordable Care Act \(PDF\)](#), the Government Accountability Office (GAO) noted several areas where further guidance is needed:

- How to implement the new income eligibility standards in a variety of possible scenarios. One example where California and other states need guidance is how to determine eligibility of children who divide their time between two parents' households.
- How to determine whether an enrollee is newly eligible or was already eligible before the ACA expansion, taking into consideration the changed income standards imposed by the ACA. The difference is significant. For example, California would receive much more federal money — initially, a 100% federal matching rate — for newly eligible Medicaid enrollees than for enrollees eligible for Medi-Cal prior to the ACA's passage (a federal match of approximately 50%).
- How to integrate state information systems with the new federal data hub, and what kinds of information to expect from the Internal Revenue Service and other federal agencies. States will use the federal data hub to verify income and citizenship or legal immigrant status for new enrollees.

In many other areas, California needs guidance from federal agencies to fully understand its options and their implications. For example, rules regarding federal and state financial responsibilities under a Basic Health Program (BHP) have yet to be promulgated, and details regarding the inclusion of "essential community providers" in Exchange qualified health plan networks have yet to be finalized.

A website from the US Department of Health and Human Services, [www.HealthCare.gov](http://www.HealthCare.gov), provides an overview of and updates on ACA implementation.

## II. ACA Implementation Timelines

[Health Reform Source: Implementation Timeline](#) (Kaiser Family Foundation)

[State Milestones for ACA Implementation](#) (Robert Wood Johnson Foundation, March 2012)

## III. The California Context

California Simulation of Insurance Markets version 1.8 Statewide Data Book, 2014–2019 (UCLA Center for Health Policy Research & UC Berkeley Center for Labor Research and Education, March 2013)

[California's Individual and Small Group Markets on the Eve of Reform](#) (California HealthCare Foundation, April 2011)

[California's Uninsured](#) (California HealthCare Foundation, December 2012)

[Health Reform in Translation](#) (California HealthCare Foundation, August 2013)

[Monitoring the Impacts of the Affordable Care Act in California: Stakeholder Input and Priorities](#) (California HealthCare Foundation, August 2012)

[Ready for Reform? Health Insurance Regulation in California Under the ACA](#) (California HealthCare Foundation, June 2011)

#### **IV. How ACA Is Paid For**

Financing for the ACA relies on a complex patchwork of new revenues and anticipated savings. Over the long term, the ACA is intended to yield savings through increased prevention, reduced emergency room and acute care, reduced payments to providers, and reduced waste and fraud. To pay for the immediate benefits the ACA delivers, it raises Medicare payroll taxes on single people earning more than \$200,000 per year and couples earning more than \$250,000 per year. It also imposes annual fees on health insurance companies and pharmaceutical and device manufacturers, as well as imposing an excise tax on high-cost insurance (so-called "Cadillac" health plans).

#### **V. Leads: Responsible State Departments and Entities**

[The California Department of Health Care Services \(DHCS\)](#) finances and administers a number of individual health care delivery programs, including Medi-Cal (California's Medicaid program). As such, DHCS plays a central role in the implementation of the ACA, specifically in its efforts to implement the Medi-Cal expansion to newly eligible people and its work with other state entities and counties to simplify enrollment.

[The California Department of Insurance \(CDI\)](#) is one of two state entities responsible for the regulation and oversight of health insurance. CDI licenses and regulates the rates and practices of insurance companies, agents, and brokers in California. The role of CDI in the implementation of the federal health care reform is to ensure that health insurers adhere to the consumer protections as mandated.

[The California Department of Managed Health Care \(DMHC\)](#) is one of two state entities responsible for the regulation and oversight of health insurance. DMHC primarily regulates health maintenance organizations. The role of DMHC in the implementation of federal health care reform is to ensure that health plans adhere to the consumer protections as mandated.

[The California Health and Human Services Agency \(CHHS\)](#) oversees 13 departments and one board that provide health care services, social services, mental health services, alcohol and drug treatment services, income assistance, and public health services to Californians. Several departments involved in the implementation of ACA are overseen by CHHS, specifically DHCS, MRMIB, and DMHC. In addition, the secretary of CHHS serves as a voting ex-officio member of the Covered California Board. CHHS plays an important role of ensuring coordinated implementation across these state entities.

[The California Health Benefit Exchange \(Covered California\)](#), established by state law in 2010, is an independent public entity within state government with a five-member board appointed by the governor and the legislature. Covered California was borne out of the ACA as the vehicle for providing competitive marketplaces for individuals and small employers to directly compare and purchase private health insurance coverage based on price, quality,

and other factors. Covered California will also administer an online portal to enable consumers to choose a health plan and providers that offer the best value.

The Managed Risk Medical Insurance Board (MRMIB) oversees programs that serve lower-income and high-health-risk individuals. MRMIB is involved in the implementation of ACA in a number of ways, such as in the implementation and future dissolution of the temporary Pre-Existing Condition Insurance Plan, the transition of enrollees from Healthy Families to Medi-Cal as part of Medi-Cal expansion, and the collaborative effort with DHCS and Covered California to develop a single, streamlined eligibility process for health insurance consumers in California.