

Cross Country / By Tarren Bragdon and Adam Brackemyre

## A SOP to Socialized Health Care

Portland, Maine

Welcome to the Pine Tree state, where a program that the governor claims has saved the state millions of dollars means that your taxes go . . . up. Maine is the home of Democratic Gov. John Baldacci's Dirigo Health, which regulates the state's health-care system and includes a subsidized health-insurance program. (*Dirigo* is the state's motto, Latin for "I lead.") When the law creating Dirigo Health was signed, proponents said it would reduce cost-shifting and health-system costs and ultimately cover all 130,000 uninsured Mainers within five years, including 31,000 uninsured in year one.

It hasn't worked out that way. Through the first nine months only 1,600 previously uninsured individuals enrolled in Dirigo Health's insurance product, called DirigoChoice. The other 6,000 who enrolled simply traded their private health insurance for taxpayer-subsidized DirigoChoice. The program continues to spend millions subsidizing insurance for those already insured.

Gov. Baldacci promised that his new program would insure the uninsured and save the state money. It's a bit hard to see how, when it cost \$19.5 million to cover 1,600 previously uninsured people. Nevertheless, the governor says that it does—and that now Mainers must pay it all back! The reasoning goes like this: By enrolling the uninsured, Dirigo Health would reduce "cost shifting," which happens when unpaid bills are passed along to other paying patients in the form of higher costs. So when individuals have coverage, the insurer pays most of the bills, reducing the chance of unpaid bills. This reduction in bad debt would become savings—which Maine could claim for the state.

The Dirigo Health board of directors hired an outside firm to examine health-care system spending in Maine to determine Dirigo Health's savings. Initially, the governor claimed that Dirigo saved the system about \$137 million. That didn't seem right—how could a program that covered a mere 1,600 uninsured people save \$137 million?

The insurance commissioner revised the claimed savings to approximately \$4 million. Ultimately, less than \$3 million was attributed to reductions in uncompensated care. Most of the rest was due to Dirigo regulations that asked the state's hospitals to cap their cost increases at 3% a year. Maine hospitals did so, accounting for almost \$34 million in savings, compared with what the governor projected costs would have increased.

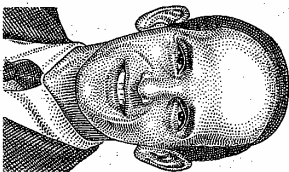
Looking further into the issue, one consultant tested the formulas that Maine used to calculate the hospital-generated savings by feeding in data from New Hampshire—which does not have Dirigo Health regulations or subsidies for uninsured health insurance, and which should presumably not show any savings at all. Nevertheless the model showed tens of millions in savings for New Hampshire hospitals. This puzzling result raised questions about the accuracy of the savings that resulted from Dirigo Health. But for now, the \$4 million figure stands—and Gov. Baldacci has used it as the excuse to raise taxes.

The Dirigo board is levying a Savings Offset Payment, or SOP—a remarkably innovative name for a new claims tax—to "recover" every dollar that the state says it has "saved." This SOP is similar to a sales tax: a 2.4% surcharge is added to all paid health-care

claims. When applied, this new tax will cost the average individual about \$70 and the average family about \$200 a year—at a time when most individual insurance policyholders are already absorbing a 16% increase in their insurance premiums.

But, you may ask, if the program is saving all this money, why is a new tax necessary? The answer is that without the SOP, Dirigo Health's high costs would bankrupt the program.

The SOP, effective last month, applies only to individuals, small businesses and other businesses buying health insurance from a Maine insurer or using a third-party administrator. By raising insurance costs, this tax may end up compelling some individuals to drop their coverage. But hey, maybe they too can get subsidized coverage under Dirigo.



John Baldacci

Currently, SOP is being challenged in court, for both the calculations of the savings and the ability of the state to tax certain large employers. Some insurers have included a notice on policies highlighting the new tax—and consumers are furious. On Tuesday the Legislature held a public hearing for a bill that would forbid insurers from passing along the cost of the SOP to policyholders. Gov. Baldacci supports this proposal even though it sets the dangerous precedent of the state limiting a private business's ability to pass along a cost of doing business. It also threatens the very financial

viability of the private insurance market in Maine. The legislative proposal shows their political concern over the public's reaction to the SOP.

A better alternative for uninsured individuals in Maine is Health Savings Accounts, a tax-deductible personal fund coupled with a high-deductible health-insurance policy. The savings account permits a person to take federal income tax deductions for account contributions and, in most cases, state income tax deductions—though not in Maine. The high-deductible insurance plan, like all insurance, protects the insured from financial loss. And HSAs would cost the state far less than Dirigo.

If Dirigo truly saved money, the program's benefits would exceed its costs. Elementary math indicates that this is not the case: every dollar questionably identified by the state as having been "saved" is taken from consumers thanks to the SOP. Perhaps not surprisingly, several other states are asking whether Maine's Dirigo Health could be a model for them. It could, if they too want to increase taxes, meanwhile doing virtually nothing to help the uninsured. "Dirigo" might come to mean "Don't be misled."

And if legal attempts to challenge it fail, then the Dirigo Savings Offset Payment will probably become permanent and grow in future years. The cry in Maine soon may become "Dirigo, your savings are too taxing."

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Independent Insights



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