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Solutions for Today's Health Policy Challenges

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Essential Health Benefits and State Mandated Benefits— At What Cost?

Introduction. The Patient Protection and Affordable Care Act (ACA) requires the Department of Health and Human Services (HHS) to define a broad package of essential health benefits (EHBs)—similar to that of a “typical” employer health plan—to be offered by health plans to individuals and small employers both in and out of the state-based health insurance exchanges. HHS asked the Institute of Medicine (IOM) to recommend a framework of policy foundations, criteria and methods for defining the essential benefit package as well as updating it for medical advances and cost changes going forward. HHS *did not* ask the IOM to define a specific list or categories of essential benefits, although some special interest groups speculated (perhaps optimistically) they might do so.

The Council for Affordable Health Insurance (CAHI) submitted comments suggesting the IOM refrain from including all current state mandated benefits in the EHB. On October 7, 2011, the IOM released its recommendations: “Essential Health Benefits: Balancing Coverage and Cost.”

Key IOM Report Findings. The IOM recognized what many policy analysts and health actuaries have been advocating for years: a sustainable health benefits package must strike a balance between affordability and comprehensiveness. Other findings include:

- The projected national average premium for the “silver” plan (a mid-range plan under ACA) with the new EHB should be actuarially equivalent to the average premium for a “typical” small employer plan;
- The EHB package should be updated beginning in 2015 to make it more “evidence-based, specific, and value-promoting,” while explicitly incorporating cost considerations;
- States should be permitted to adopt benefit changes for their own exchanges, provided that they are consistent with the federal EHB package, not significantly more or less generous, and subject to public input;

- To ensure ongoing affordability, HHS should develop a strategy, in collaboration with stakeholders, for aligning the growth rate of health care spending in all sectors with that of the economy.

The IOM Report and Mandated Benefits. The ACA requires the EHB package to reflect “typical” employer plan benefits and include ten broad categories of health benefits, including: ambulatory patient services; emergency services; hospitalization; maternity and newborn care; mental health and substance abuse treatment; prescription drugs; rehabilitative and habilitative services and devices; laboratory services; pediatric care; and preventive and wellness care.

HHS, however, did not ask the IOM to draft a specific list of benefits and services, but to develop a set of criteria for creating the EHB. *In their response, the IOM stated that current state mandated benefit laws should not automatically be included in the EHB package, but should be reviewed in the same manner as other potential health benefits.* This conclusion is exactly what CAHI recommended to the IOM based upon our annual state mandated benefit compilation and cost analysis that we have released in some format for the past twenty years.

Additional IOM Report Findings. The IOM Committee recommended the following guidelines to HHS when considering the contents of the EHB package:

- *Encourage public involvement.* HHS should allow a public deliberation process when defining and updating the EHB package.
- *Ensure appropriate care.* Stakeholders have a shared responsibility to improve health and use resources wisely; therefore, only medically necessary services should be covered, and insurers should determine “medical necessity” on an individual basis.
- *Promote state-based innovations.* States need flexibility to define the essential health benefits which best suit the needs of their populations.

Above all, the EHB must:

- *Be affordable* for consumers, employers and taxpayers;
- *Maximize the number of people with insurance coverage*; and,
- *Protect against the greatest financial risks* due to catastrophic events or illnesses.

CAHI's Opinion of the IOM Recommendations. One of the biggest cost drivers in our health care system is the steady proliferation of federal and state-based coverage mandates. According to CAHI's research over the last twenty years, the number of state mandated benefits continues to grow—to 2,156 nationwide, up from 2,133 last year. This represents a 153 percent increase in the number of mandates since CAHI started tracking them in 1992, at which time there were approximately 850 mandates across all 50 states.

Based on our annual analysis, mandated benefits currently increase the cost of basic health coverage from slightly less than 10 percent to more than 50 percent, depending on the state, the specific legislative language, and type of health insurance policy.

We are heartened to observe the IOM report repeatedly emphasizes the importance of costs and value when choosing benefits to include in an EHB package. Moreover, they recommend state policymakers adhere to the same cost and value considerations when considering modifications to the federal EHB package. We concur with both recommendations.

We also agree with a parallel the IOM report drew between choosing essential benefits and smart food shopping: instead of loading up the supermarket cart and waiting until the register rings the total to determine the final hit to the wallet, decide on a family budget before shopping and carefully select items based on their value and cost, all while staying within the budget. Policy-makers cannot continue piling mandated benefits onto health policies and expect those policies not to exceed the budgets of millions of health care consumers. Better to explicitly recognize cost considerations upfront by pegging benefit choices to a pre-determined benchmark, e.g., the average premium for a typical small employer policy, while tying future premium growth trends to the broader economy. Importantly, the IOM urged HHS to do both.

Conclusion. We believe the IOM got it right; their sober, cost-conscious benefit recommendations are steps in the right direction. It is important to note that HHS is not bound by the IOM's recommendations, but we hope they'll have the wisdom to embrace them.

For more information on mandated benefits, please see the following CAHI publications available at www.cahi.org —

Health Insurance Mandates in the States, 2010
Victoria Craig Bunce and JP Wieske

Trends in State Mandated Benefits, 2010
Victoria Craig Bunce

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