Use of Employer Funds as State Match in Maine and Arkansas
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The purpose of this paper is to:

- Explain the proposals by Maine and Arkansas to use employer funds as state match in public coverage expansions
- Explain the federal position on this funding mechanism

Background

Maine and Arkansas have both proposed to expand coverage to the uninsured. The Maine proposal, called Dirigo Health, would cover childless adults with incomes up to 125% of the federal poverty limit (FPL) and parents of Medicaid and SCHIP children with incomes up to 200% of the FPL. There would also be coverage subsidies available for individuals, families, small business employees (2-50 employees) and the self-employed with incomes up to 300% of the FPL. The Arkansas proposal would cover parents and childless adults with incomes up to 200% of the FPL.

Coverage in Dirigo Health would be provided through the state's fee-for-service Medicaid program and through contracts with health insurers to deliver the Dirigo Health benefit package.[1] In Arkansas, coverage would be furnished through contracts with health insurers. While coverage in Arkansas would only be available in connection with a workplace, this would not be the case in Maine. Direct coverage would be provided to individuals below 200% of the FPL for parents and 125% of the FPL for childless adults, although individuals with higher incomes could only be insured through Dirigo Health insurers. Those who are eligible for direct coverage may choose to enroll in Dirigo Health through an employer, but would still receive the full Medicaid benefit package, according to the state statute.

While Arkansas has submitted its proposal formally to the Centers for Medicare and Medicaid Services (CMS) as a Health Insurance Flexibility and Accountability (HIFA) demonstration, Maine is attempting to implement Dirigo Health without federal waivers.[2]

Financing

Both states seek to use third party contributions as state share for their programs. In Arkansas, employer funds would constitute 100% of the state share for the HIFA proposal. In Maine, both

[1] In the event that the state is unsuccessful in getting health insurers to deliver the Dirigo Health product, the state statute authorizing the program provides that the state may set up its own health plan to deliver services.
[2] Maine already has federal approval to cover childless adults with incomes up to 125% of the FPL through its HIFA waiver, approved in September of 2002. The state can expand coverage to parents by submitting a state plan amendment increasing the income disregards for the section 1931 group.

employer and participant funds would be used as state share, although it cannot be determined from publicly available materials how much of the state share would come from these sources. Following is an explanation of the financing mechanisms for both proposals.

Arkansas

Arkansas would charge employers an amount equal to the required state share for each of their employees participating in the coverage program. The funds paid by employers would be deposited in the general fund and appropriated to the Medicaid agency to be used as state match for the federal funds. Therefore, the state would not be required to put up any new funds to finance the program.

Maine

In the Maine program, the state statute establishes a Dirigo Health Fund. The fund would include appropriations for initial operating expenses, payments made by employers and individuals, funds from "any public or private source" and "savings offset" funds. Savings offset funds would be payments collected by the state from health insurers to reflect cost savings attributable to decreases in bad debt and charity care. Money from the Dirigo Health Fund (with the exception of savings offset payments) would be transferred to second account for use as state match for Medicaid funds. Presumably, the savings offset payments are not being used as state share in order not to violate the Medicaid provisions on provider taxes and donations.

Federal Response

The Centers for Medicare and Medicaid Services (CMS) has articulated a clear position on the use of third party funds, such as employer contributions, in waivers. CMS requires that states deduct the amount of third party contributions from the total funds spent before claiming federal match. In effect, the use of third party funds reduces both the state share and the federal share proportionately. In both Arkansas and Maine, contrary to federal policy, the state intends to use the employer contributions as state match.

The financing issue is the main barrier to CMS's approval of the Arkansas HIFA proposal, which was submitted on January 24, 2003. Although Maine is attempting to implement Dirigo Health without federal waivers, so there is no proposal before the federal government, CMS has told Maine informally that employer funds cannot be used as state match.