

Pennsylvania Orthopaedic Society (POS) Mcare Retirement Proposal

June 9, 2009

POS Plan Overview

- Phase Out period is 10 years with \$100,000 increases every two years.
- Physicians would continue to pay Mcare assessments during Phase Out period
- Mcare Retirement Account is created to make Bulge payments and to retire the Fund.
- The POS Plan uses existing cigarette tax revenues to fund the various programs described below. No new cigarette tax revenue is required.
- The POS Plan establishes a Commission to conduct a review of this program after five years. (See Future Expenses and Revenue Requirements)

NOTES:

1. Average of \$200 M is needed annually to pay Mcare claims (based on 2008 claims).
2. \$645 M is amount needed for Bulge years, i.e., those years during the ten year phase-out where total liability insurance costs are estimated to exceed the cost of \$1M in coverage from the private market. Physicians are relieved of the expense represented by the "bulge" by having it absorbed by the Mcare Retirement Account.

Mcare Phase Out Period - 2010 – 2019

- \$ 2 B in Mcare claims and expenses during Phase Out.
- \$ 2 B from physician assessments; Bulge payments made from Mcare Retirement Account.

NOTES:

1. Average of \$200 M is needed annually to pay Mcare claims (based on Office of Mcare data).

Mcare Retirement Account - Accumulates revenue sources listed below to pay for the Bulge and to retire the Fund when primary level reaches \$1M.

- | | |
|--|---------|
| • Mcare Fund surplus | \$128 M |
| • HCPRA surplus | \$300 M |
| • \$.10 per pack cigarette tax annually for 10 years | \$648 M |
| • Auto CAT Fund revenue annually for 10 years | \$440 M |

These sources create a \$1.516 B Mcare Retirement Account in 10 years. It is reduced during the:

- Phase Out period by \$645 M to make the Bulge payments;
- Run Off period (beginning in 2020 when the primary coverage level reaches \$1 M/\$3M) by annual Mcare Fund claims and expenses.

What the POS Plan Leaves for Other Uses

- \$413 M in HCPRA surplus
- \$97.2 M in annual cigarette tax revenue

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What the POS Plan Leaves for Other Uses , continued

Recommended Uses of these Funds

- \$350 M in HCPRA surplus for budget deficit per Governor Rendell's Executive Budget.
- \$63 M in HCPRA surplus for adultBasic per Governor Rendell's Executive Budget (\$66 M is actually appropriated in the Executive Budget).
- \$97.2 M from \$0.15 per pack cigarette tax for clinics per Senate Republicans' proposal, adultBasic per House Democrats' plan and Medicaid Pay for Performance/Medicaid code enhancements/ER Call payments to specialty physicians per PMS and POS proposals.
 - a. \$38.8 M (approximately \$0.06 per pack cigarette tax revenue) of this \$97.2 M should be reserved for Medicaid Pay for Performance/Medicaid code enhancements/ER Call payments to specialty physicians.

Note: Governor Rendell's Executive Budget proposed diverting \$180 M from the \$0.25 per pack cigarette tax to the General Fund. Under this plan, the General Fund would not receive those revenues.

Future Expenses and Revenue Requirements

Mcare Fund claims and expenses are projected to continue to decline, therefore, the Mcare Retirement Account revenue sources may need to be adjusted to avoid an excess surplus. In addition, state expenses for adultBasic and clinics may be offset by federal funding, so again, the revenue dedicated to these programs may need to be adjusted as well.

Under the POS Plan, after five years a commission would be established to review of the various programs' expenses and revenues. This commission would make recommendations to the Governor's Office and General Assembly as to necessary adjustments in revenue distribution. The Commission would be comprised of representatives of the Administration, the General Assembly, POS, PMS, HAP and the IFP.