



## Will Obama's Reforms Erode Health Coverage in Hawaii?

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For most Americans, the implementation of the Affordable Care Act of 2010 promises improved access to reasonably priced, secure health insurance. Of course, much depends on where people live. Each of the fifty U.S. states plays a major role in implementing reform. Some states are refusing to expand Medicaid benefits to include more of their low income citizens – and their reluctance has gotten a lot of national media coverage.

Much less noticed is the contrasting challenge in Hawaii. Decades ago, America's fiftieth state enacted reforms that have led to the nation's most generous health coverage. Ironically, as President Obama's national reforms come into full effect, a burning issue is whether they will erode the scope and standards of health insurance in his native state. Maybe that will happen, but ObamaCare also holds the promise for improving health care in Hawaii in important ways.

### The Hawaii Approach to Health Care

A pioneer innovator, Hawaii is the only U.S. state that has implemented an employer mandate for health coverage. Enacted in 1974, the Hawaii Prepaid Health Care Act requires all employers to provide health insurance to employees who work 20 hours a week or more. Approved insurance plans must also provide certain core benefits, such as inpatient hospital care, emergency room care, maternity care, and medical and surgical services.

With this system in place, the uninsured rate in Hawaii dropped from 30% to 5%; and Hawaii residents currently enjoy more complete health coverage than the citizens of all other states except Massachusetts. This is impressive, because the overall cost of living is unusually high in Hawaii, and the state's poverty rate exceeds the national average. Since 1979, Americans with no more than a high school education have lost health insurance coverage – but not in Hawaii, where the tiny proportion of uninsured residents has remained stable.

True, just two insurance companies dominate the market in Hawaii, providing 89% of the coverage. The market is not competitive, yet the state's health care premiums are generally lower and benefits more generous than those available in the rest of the country.

### What the Affordable Care Act Means for Hawaii's Health Insurance

In key respects, Hawaii's generous benefits will not be affected by the lower standards mandated under Affordable Care. Under Hawaii law, for instance, workers are covered as long as they work 20 hours a week, whereas the minimum in Affordable Care is 30 hours. Affordable Care allows employees to be charged up to 9.5% of their wages for health coverage, but in Hawaii the maximum they can be charged is 1.5%. Employers

in Hawaii must pay half of the premium cost, but there is no such requirement for employer health plans in Affordable Care.

But there are other features of the new national requirements that may weaken Hawaii's health care system.

- Affordable Care requires that all states offer a range of health insurance plans on their regulated markets called "exchanges," ranging from "platinum" and "gold" plans with high premiums and very generous benefits to "silver" and "bronze" plans with lower premiums and skimpier benefits. All states are required to include "silver" plans, yet Hawaii law currently sets minimum standards closer to the national "gold" and "platinum" levels. So there is very real concern that national reform will introduce plans with benefits below the minimum now guaranteed in Hawaii.
- Hawaii's very generous Medicaid system is also threatened. Prior to Affordable Care, the state provided Medicaid coverage to low-income residents with incomes up to 200% of the federal poverty line. But this had to change in July 2012, when the standard was lowered to 133% of federally defined poverty to comply with the national health law. In short, as dozens of other states argue about whether to expand Medicaid to include more low-income citizens, Hawaii is experiencing the opposite, an unwanted contraction of Medicaid coverage.

## **Affordable Care as a Catalyst for Improvements**

National health reform may also spur much-needed improvements, however. Although excellent in many respects, Hawaii health care suffers from unsustainable cost increases and uneven quality. Fully one-quarter of the state budget goes to pay for health care, and one-third of residents are covered by public programs.

- Affordable Care requires states to measure and regularly report on health care quality, and the law encourages experiments with evidence-based treatments, that is, treatments that have been proven to work and not waste money. Currently providers in Hawaii either do not or cannot use information technology to monitor care. Payment systems encourage hospitals to stress emergency care over routine primary care, and local plans do not cover remedies for conditions such as obesity that lead to costly chronic illnesses including diabetes and heart disease.
- National reform can also help Hawaii overcome geographical disparities. Right now, the bulk of health services are available on Oahu, leaving residents on the other islands with limited access to advanced or specialized care. Because Hawaii provides relatively low reimbursements to providers, the state has only about three-quarters of the physicians it needs, with acute shortfalls in rural areas. Affordable Care offers increased funding for community health centers in medically underserved areas. They can make renovations and support preventive and primary health services for more patients. Through its new health insurance exchange, Affordable Care will also offer more insurance plan choices to Hawaii's residents.
- The state of Hawaii has received a federal grant of nearly one million dollars to design and implement a transformation plan. Because state agencies are responsible for one-third of all health-related purchases, they can use government clout to overcome fragmentation and promote cost-effectiveness, which the new national reforms encourage them to do.

In short, the Affordable Care reforms pose unique challenges for Hawaii, because certain provisions could erode the state's coverage and benefits. But Affordable Care also includes carrots and sticks to promote innovation and reduce costs – and such incentives could be just what Hawaii needs to make significant improvements in its already strong health care system.