

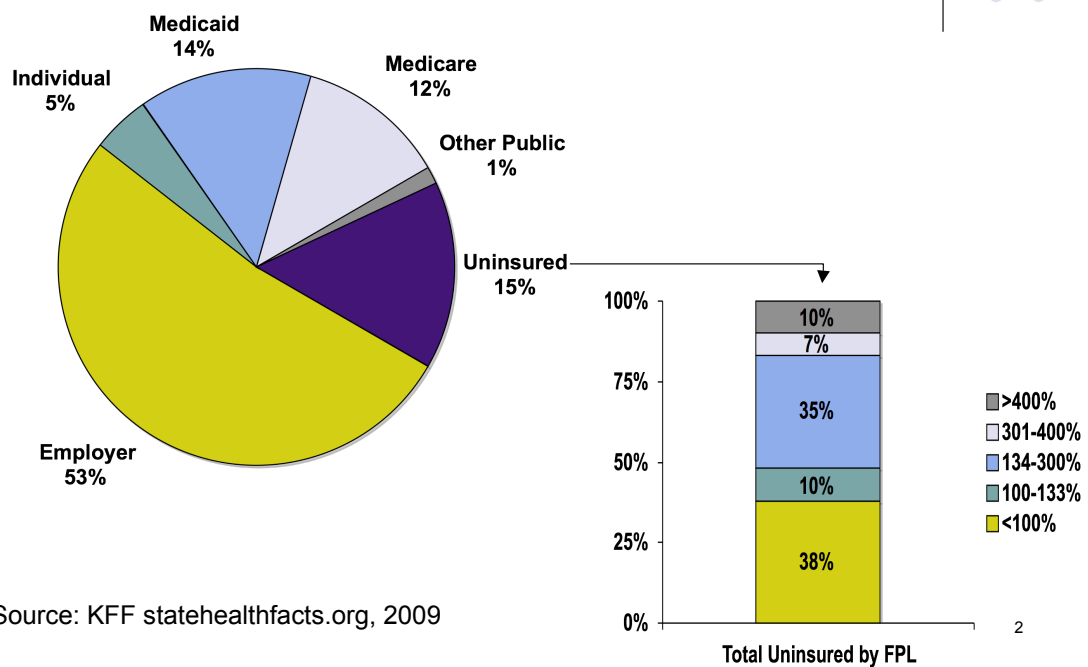


Federal Health Reform in California

*Lucien Wulsin and Adam Dougherty
Insure the Uninsured Project
March 3, 2010*



America's Health Coverage

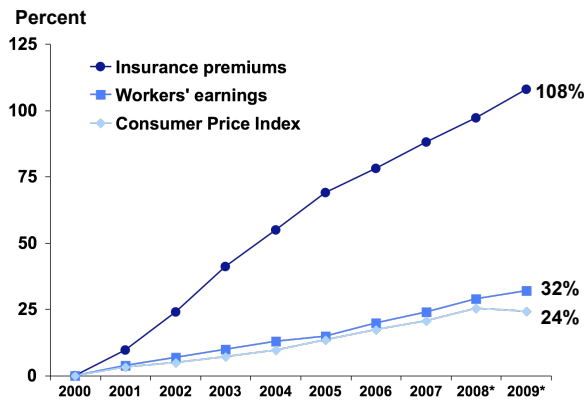


Source: KFF statehealthfacts.org, 2009

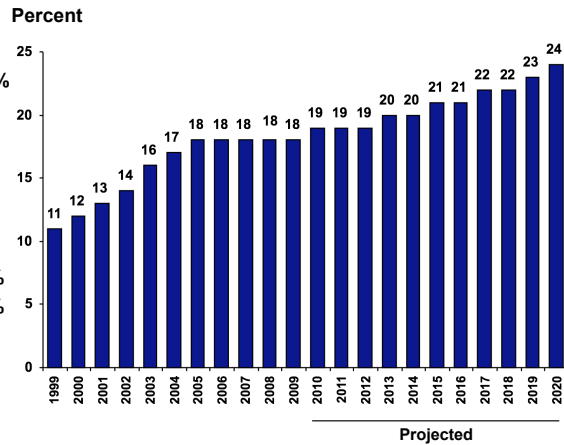
Premiums Rising Faster Than Inflation and Wages



Cumulative Changes in Components of U.S. National Health Expenditures and Workers' Earnings, 2000–2009



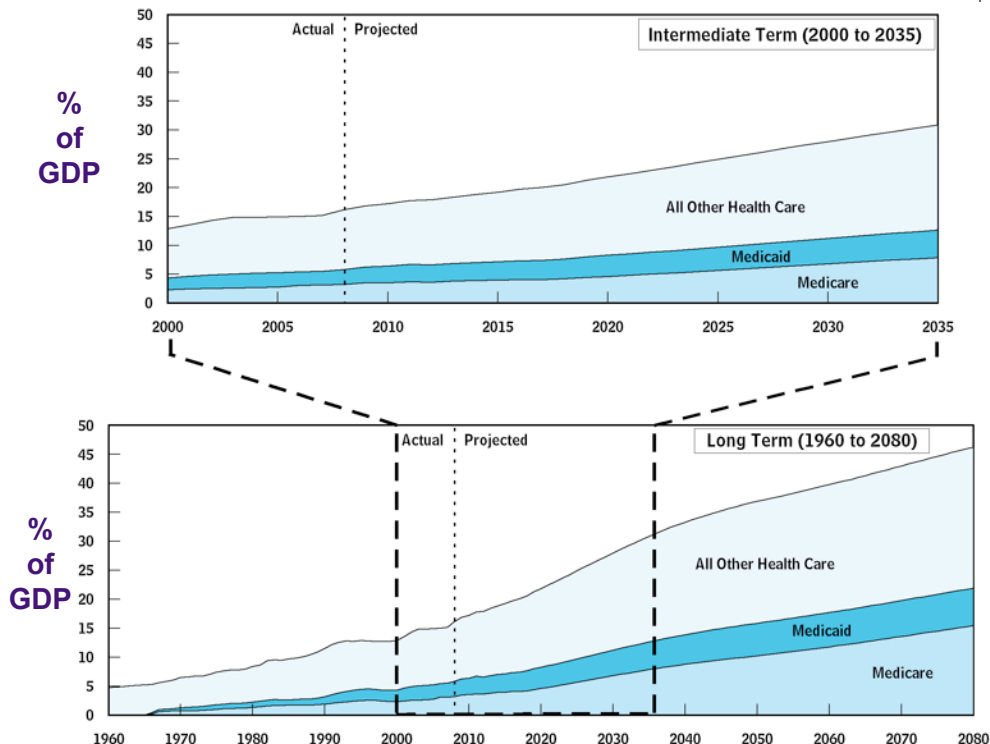
Projected Average Family Premium as a Percentage of Median Family Income, 2008–2020



* 2008 and 2009 NHE projections.

Source: K. Davis, *Why Health Reform Must Counter the Rising Costs of Health Insurance Premiums*, (New York: The Commonwealth Fund, Aug. 2009).

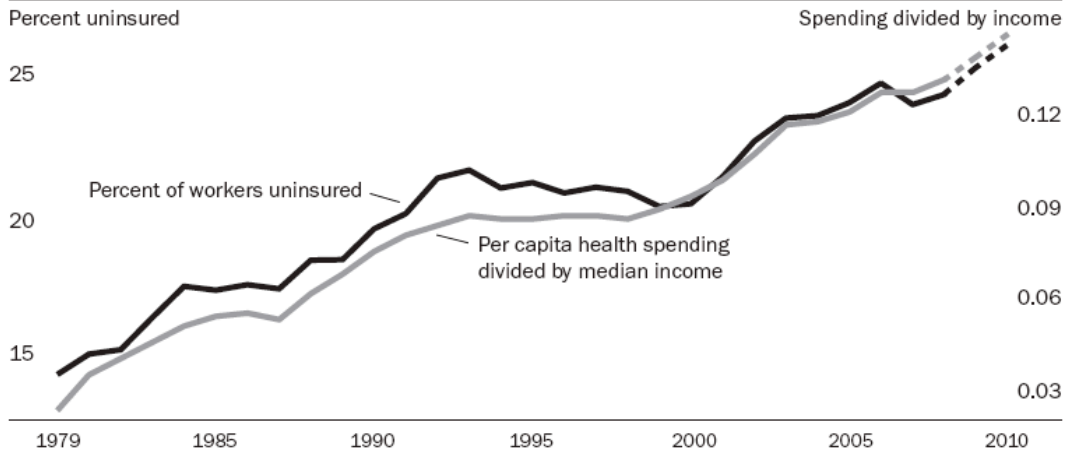
Total Spending for Health Care Under CBO's Extended-Baseline Scenario



Uninsured Rising With Costs



Uninsurance Rate (Percentage) Among Workers And Per Capita Health Spending Divided By Median Income, 1979–2007, And Projected, 2008–2010



SOURCE: Authors' analysis of data from the Current Population Survey, March supplements, Annual Demographics Files, 1980–2008; and Centers for Medicare and Medicaid Services, National Health Accounts, 1979–2007.

NOTES: Percentage uninsured (black line) relates to the left-hand y axis. Per capita spending divided by median income (gray line) relates to the right-hand y axis. The series for workers is restricted to those not covered as a dependent or by a public program. Projected uninsurance and spending divided by income are denoted by dashed lines. Data for 1980 were not available. Gilmer and Kronick, *Hard Times and Health Insurance*, Health Affairs, May 2009

The Consequences of Inaction



- White House Council of Economic Advisers:
 - Health expenditures would likely rise from 18 percent of GDP to 28 percent in 2030, to 34 percent in 2040
 - The uninsured would rise from 46 million in 2007 to 72 million in 2040
- From the Urban Institute Health Insurance Policy Simulation Model:
 - The amount of uncompensated care would more than double in 45 states over next decade
 - States would see Medicaid/CHIP spending rise by 75%



Overview of Reform

- Expands coverage to 33 million individuals by 2019, covering nearly 95% of Americans
- Bending the cost curve
 - Extends solvency of Medicare Trust Fund by 10 years through 2-3% annual reduction in spending growth (e.g. 6% growth to 4% growth)
 - Slows private health care expenditure growth annually by 1% (e.g. 6% growth to 5% growth)
 - Reduces federal deficit by \$130B over 10 years, and over \$1T in second decade

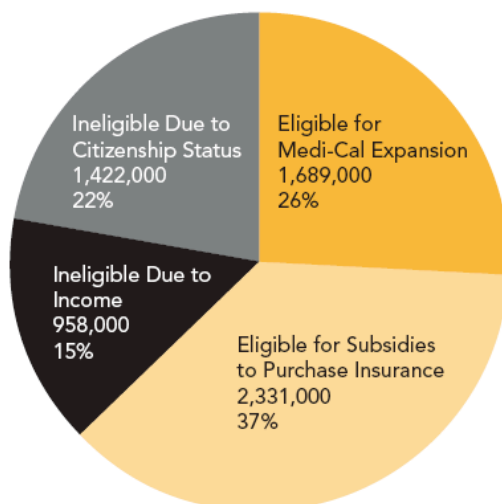
Sources: CBO Score of Senate Bill, White House Council of Economic Advisors

7

The Uninsured after Health Reform: California

Exhibit 1. Eligibility for Health Insurance Expansions Under Proposed National Health Care Reforms, Ages 0-64, California, 2007

Total Uninsured Ages 0-64 = 6.4 Million



Source: *Health Policy Fact Sheet*, UCLA Center for Health Policy Research, Oct 2009

8

**HEALTH CARE REFORM COST AND SAVINGS ESTIMATE
FULL IMPLEMENTATION: CALIFORNIA**

(Dollars in Thousands)



COST/(SAVINGS) ELEMENT	FY 2018-19 SENATE VERSION (H.R. 3590) Patient Protection and Affordable Care Act	
	Total Funds	General Funds
Eligibility expansion (MIAs and Parents)	\$ 6,815,000	\$ 1,338,000
Healthy Families Shift (to Medi-Cal)	648,000	324,000
Coverage of eligible but unenrolled (Medi-Cal and Healthy Families)	1,400,000	700,000
Exchange coverage subsidies	\$11,130,000	
Administrative Costs (Ongoing)	16,000	8,000
Direct Costs (Savings)	(636,000)	(425,000)
Bright Line (Savings)	(954,000)	(477,000)
State Program (Savings)	(1,435,000)	(608,000)
County Program (Savings)		(1,440,000)
Federal Reform Dividend for CA	\$16,984,000	(\$580,000)
Outpatient rate increase (80% of Medicare)	4,318,000	1,974,000
Primary care rate increase (80% of Medicare)	537,000	255,000

9

Near Universal Coverage



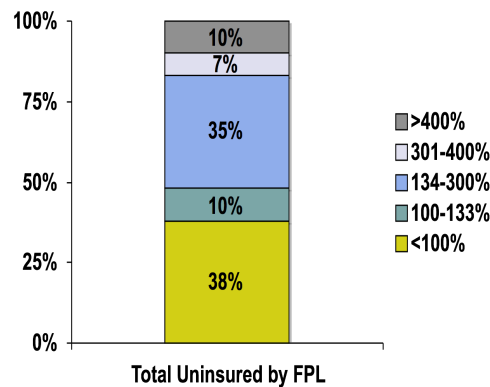
- The Individual Mandate
 - Every legal resident and US citizen will be required to obtain qualified health insurance by 2014, or be subject to a monetary penalty (0.5%-2.5% of income)
 - Must take employer coverage, buy private coverage or enroll in public coverage
 - Exemptions for financial hardship (i.e. more than 8% of income)
 - Exemptions based on religious objection

10

Medi-Cal Expansion – 25%



- Medicaid eligibility expansion to 133% FPL for parents and MIAs; SCHIP eligibility expansion for kids to 250% FPL



- CBO projects 15 million individuals newly eligible
- UCLA estimates 1.7 million newly eligible in CA
- Doubles managed care enrollment

11

Exchange Expansion – 250%



- State exchanges with federal oversight
 - Incomes between 133-400% FPL eligible for subsidies
 - Individuals pay sliding scale premiums capped at 3% - 9.8% of income
 - Would cover 2.3 million uninsured in CA (UCLA)
 - Would subsidize 45% of individually purchased private insurance in CA (CHIS calculation)
- Initial focus -- small group and individual markets
 - CBO projects 25 million would purchase through Exchanges

12

Exchange for Individuals



Poverty Level	Uninsured		Private individual	
	Est. N	%	Est. N	%
0-99% FPL	1,491,000	31	150,000	8
100-199% FPL	1,494,000	31	224,000	11
200-299% FPL	733,000	15	260,000	13
300% - 399% FPL	397,000	8	253,000	13
400% FPL and Above	701,000	15	1,101,000	55
Total	4,817,000	100	1,988,000	100

CHIS, 2007

13

Exchange Caps on Premium and Out of Pocket: President's Compromise



Tax Credits: Maximum Percent of Income Paid for Premiums

Income for a Family of Four		House	Senate	President's Proposal
From:	To:			
\$22,000	\$29,000	1.5%	2.0%	2.0 - 3.0%
\$29,000	\$33,000	1.5 - 3.0%	4.0 - 4.6%	3.0 - 4.0%
\$33,000	\$44,000	3.0 - 5.5%	4.6 - 6.3%	4.0 - 6.3%
\$44,000	\$55,000	5.5 - 8.0%	6.3 - 8.1%	6.3 - 8.1%
\$55,000	\$66,000	8.0 - 10.0%	8.1 - 9.8%	8.1 - 9.5%
\$66,000	\$77,000	10.0 - 11.0%	9.8%	9.5%
\$77,000	\$88,000	11.0 - 12.0%	9.8%	9.5%

Ranges from 133-150% of poverty, then 150-400% of poverty in 50% increments, rounded to the nearest \$1,000

Reduced Cost Sharing: Percent of Costs Paid for by Health Insurance Plan

Income for a Family of Four		House	Senate	President's Proposal
From:	To:			
\$29,000	\$33,000	97%	90%	94%
\$33,000	\$44,000	93%	80%	85%
\$44,000	\$55,000	85%	70%	73%
\$55,000	\$66,000	78%	70%	70%
\$66,000	\$77,000	72%	70%	70%
\$77,000	\$88,000	70%	70%	70%

Ranges from 133-150% of poverty, then 150-400% of poverty in 50% increments, rounded to the nearest \$1,000

From The President's Proposal, February 22, 2010

14

Insurance transformation – No underwriting exclusions



- Exchange plans and new individual market plans
 - Guaranteed issue and renewal
 - Risk-adjustment
 - Rating variation: age, geography, family size, and tobacco use
 - Compete on price and quality, not medical underwriting
 - 'Essential community providers' must be included in plan networks
 - Statewide cooperatives
- New protections across entire market
 - Minimum benefits package (grandfathering exceptions)
 - Minimum medical loss ratio
 - Transparency in claims, costs, enrollment, etc.
 - Standardized administrative processes
 - No copays for effective preventive services

15

Insurance: Minimum Benefits



- Covered Benefits
 - 4 benefits categories ranging from 60 to 90% of the cost of the covered benefit packages (Bronze, Silver, Gold, Platinum), mandate tied to bronze
 - Grandfathers existing benefits (you like it, you keep it)
 - Prohibits annual/lifetime limits
 - Prohibits cost sharing for preventive services
 - Young invincible coverage:
 - Prevention and catastrophic coverage for those up to age 30 or individuals exempt from mandate due to financial hardship
 - Exchange subsidies vary by income, linked to lowest cost plans for that income level; individuals pay the incremental cost difference (Enthoven on steroids)
 - States pay incremental cost of state mandates above federal floor

16

How is Reform Paid For?



Dollars in billions

	CBO estimate of House bill (H.R. 3962)	CBO estimate of Senate bill (H.R. 3590)
Total Net Impact on Federal Deficit, 2010–2019	-\$138	-\$132
Total Federal Cost of Coverage Expansion and Improvement	\$891	\$763
<i>Gross Cost of Coverage Provisions</i>	<i>\$1,052</i>	<i>\$871</i>
• Medicaid/CHIP outlays	425	395
• Exchange subsidies	602	436
• Small employer subsidies	25	40
<i>Offsetting Revenues and Wage Effects</i>	<i>-\$162</i>	<i>-\$108</i>
• Payments by uninsured individuals	-33	-15
• Play-or-pay payments by employers	-135	-28
• Associated effects on taxes and outlays	6	-65
Total Savings from Payment and System Reforms	-\$456	-\$483
• Productivity updates/provider payment changes	-177	-151
• Medicare Advantage reform	-170	-136
• Other improvements and savings	-109	-196
Total Revenues	-\$574	17 -\$413
Total Net Impact on Federal Deficit, 2010–2019	-\$138	-\$132

Note: House totals do not reflect net impact on deficit due to rounding.

Source: The Commonwealth Fund

The Congressional Budget Office Cost Estimate of the Patient Protection and Affordable Care Act, Dec. 19, 2009, <http://www.cbo.gov/doc.cfm?index=10868>.

The Congressional Budget Office Cost Estimate of the Patient Protection and Affordable Health Care for America Act, Nov. 20, 2009, <http://www.cbo.gov/doc.cfm?index=10741>.

Reform Impacts: California



- Medicaid expansion benefits 1.7 million uninsured Californians
 - \$7-8 B in federal match (2019)
- 2.3 million uninsured eligible for exchange subsidies. Nearly 900,000 Californians -- 45% of existing private individual market – eligible for exchange subsidies
 - \$11 B in federal subsidies (2019)
- Small lower wage businesses in Exchange
 - \$600 million in subsidies

Reform Effects in California



- No more job lock
- Allows young adults to stay on their parents' insurance through age 26
- Integration/coordination of care for the Medi-Medis
- Closing the Medicare Part D donut hole
 - Benefits nearly 4 million seniors
 - \$200 million
- Reinsurance program for employers' retirees 55-64 -- \$1 billion in CA over 2 years
- Interim federal assistance for high-risk pool
 - 200,000 medically uninsurable adults
 - \$375 million in annual federal aid for CA

From ITUP Fact Sheet on Federal Reform, Jan 2010

19

Reform Effects – California's Safety Net



- Program Simplification and Reinvestment Opportunities
 - Freed-up funds in county programs
 - \$1.44 billion (up to 80% of \$1.8 billion spent in 2006)
 - Freed-up funds in state programs
 - \$1.3 billion (up to 80% of DHCS 2013 projections)
 - Freed-up funds from High Risk Pools
 - \$38 million (Major Risk Medical Insurance Program -- MRMIP)
- Increased §330 funding for FQHCs
 - Around \$1 billion over 5 years for CA clinics

20

Primary Care Providers: Medi-Cal and Medicare Opportunities Under Reform



- Becoming a leader and integral part in ACOs (Accountable Care Organization) for Medi-Cal and Medicare patients
 - Focal point of managing care for patients with complex and chronic conditions
 - Wired and wired in
 - Rate increases in Medicare and Medicaid
 - Central role(s) with MCO's (managed care organizations) and in provider networks
 - GME slots to primary care

21

Safety Net Challenges: Transformations Under Reform



- Five to ten year transition
 - Choice: leader(s) or laggards
 - Clinics and local MCOs are the lynch pin of safety net transition
 - Must integrate, coordinate and collaborate: safety net hospitals, clinics, and local MCOs cannot go it alone
- Becoming a superior network in a highly competitive environment (the Exchanges) -- the higher income uninsured, individual and small employer markets
 - Improved patient outcomes and patient satisfaction
 - Network price per outcome (pay for performance) and gain sharing
 - Evolving role of state and county governments and enhanced role of Exchange and of the most successful MCO's

22

Stepping Stones and Building Blocks



2010

- Federal waiver

2011-12 under reform

- Funding for pools for medically uninsurable
- Match for MIAs
- No copays for effective preventive services
- Insurance rescission and medical loss ratios
- Administrative simplification
- Small business tax credits
- Enhanced §330 clinic funding
- Down payment for donut hole closing
- Medicare bonus for primary care
- Medicare pay for performance
- Competitive bidding for Medicare Advantage

23

Looking Ahead



- The President's Compromise for a Reconciliation Bill
 - Removes Cornhusker Kickback + Louisiana Purchase + Gator-aid
 - Increases excise tax threshold (\$10,200/\$27,500 for individuals/families) and delays effective date to 2018
 - Increased exchange subsidies for small business
 - Improves Medicaid state match
 - Closes the Medicare Part D donut hole over 10 years
 - Preserves Medicare payroll tax increase
 - Establishes Health Insurance Rate Authority to oversee premium increases
 - Increases investment in community health centers
 - Delays health industry taxes
 - Improves transparency to combat waste, fraud, and abuse

24

Looking Ahead



- Areas of agreement from the Health Care Summit
 - Establishment of 'undercover patients' to deter fraud and abuse in health care delivery
 - Additional appropriations for state-based malpractice reform
 - Increased provider reimbursements under Medicaid
 - Inclusion of high-deductible plans coupled with Health Savings Accounts (HSAs) through the Exchange
- Fix the rest in subsequent legislation
 - Anti-trust exemption (already passed the House)
 - New immigrant eligibility
 - Federal regulation of state exchanges
 - Public option
 - SGI for physicians

25

*See the Reports Section
and the ITUP Blog at
www.itup.org for
information and updates
on Federal Reform*



26