



ITUP’s Summary of President Obama’s Health Reform Compromise Proposalⁱ

Improved affordability for individuals and families with private individual insurance and the uninsured

Tax Credits

President Obama proposed improving affordability for premiums of health coverage with refundable, advanceable tax credits for individuals and families with incomes up to 400% of FPL (\$88,000 for a family of four). The credits apply to the uninsured and to those who buy private individual insurance through the Exchange. He improved upon the better Senate version of subsidies for the higher income uninsured and used the House version that is better for the lower income uninsured. The credits pay for the difference between the cap and the actual premiums. The credits are available to those purchasing private health insurance in the Exchange.

Some examples of how this works:ⁱⁱ

Example 1: A family of four with parents aged 64 and 60 and two teen-aged children aged 17 and 15. Their premium for a Kaiser plan with no deductible and \$25 copay in West Los Angeles would be \$14,196 annually. If their income is 200% of FPL (\$44,000), they would pay \$2,772 annually and the remainder of \$11,424 would be subsidized with a refundable, advanceable tax credit through the Exchange.

Example 2: Same family but with an income of \$88,000 (400% of FPL). Under this model, they pay \$8,360 and the subsidy is \$5,836.

Example 3: A family of four with parents aged 34 and 30 and two elementary school aged children aged 10 and 8. Their premium for Kaiser plan with no deductible and \$25 copay in West Los Angeles would be \$11,004 annually. If their income is 200% of FPL (\$44,000), they would pay \$2,772 annually, and the remainder of \$8,232 would be subsidized with a refundable, advanceable tax credit through the Exchange.

Example 4: Same family but with an income of \$88,000 (400% of FPL). Under this model, they pay \$8,360 and the tax credit subsidy is \$2,644.

Tax Credits: Caps on Percent of Income Paid for Premiums

Income for a family of four	House	Senate	President
\$22,000-\$29,000 (100-133% of FPL) ⁱⁱⁱ	1.5%	2%	2-3%
\$29,000-\$33,000 (133-150% of FPL)	1.5-3%	4-4.6%	3-4%
\$33,000-\$44,000 (150-200% of FPL)	3-5.5%	4.6-6.3%	4-6.3%
\$44,000-\$55,000 (200-250% of FPL)	5.5-8%	6.3-8.1%	6.3-8.1%
\$55,000-\$66,000 (250-300% of FPL)	8-10%	8.1-9.8%	8.1-9.5%
\$66,000-\$77,000 (300-350% of FPL)	10-11%	9.8%	9.5%
\$77,000-\$88,000 (350-400% of FPL)	11-12%	9.8%	9.5%



The President also proposed increasing the extent of coverage subsidized within the Exchange by splitting the difference between the House and Senate versions. An actuarial value refers to the amount of coverage. For example a plan with an actuarial value of 100% would cover all expected medical costs while an actuarial value of 50 would cover 50% of expected costs.

Some examples of what this means:

Example 5: A family of four with parents aged 34 and 30 and children aged 10 and 8. Their premium for an Anthem Blue Cross HMO with no deductible and \$25 copay in West Los Angeles would be \$12,480 annually (we assume this is a 94% actuarial value plan). If their income is 150% of FPL (\$33,000), they would pay \$990 annually and the remainder of \$11,490 would be subsidized with a refundable, advanceable tax credit through the Exchange.

Example 6: Same family but with an income of \$88,000 (400% of FPL). Their premium for an Anthem Blue Cross PPO with \$3500 deductible, 30% co-insurance and \$40 copay in West Los Angeles would be \$8,460 annually (we assume this is a 70% actuarial value plan). Under this model, they pay \$8,360 and the tax credit subsidy is \$100.

Cost Sharing: Actuarial Values

Income for a family of four	House	Senate	President
\$29,000-\$33,000 (133-150% of FPL)	97%	90%	94%
\$33,000-\$44,000 (150-200% of FPL)	93%	80%	85%
\$44,000-\$55,000 (200-250% of FPL)	85%	70%	73%
\$55,000-\$66,000 (250-300% of FPL)	78%	70%	70%
\$66,000-\$77,000 (300-350% of FPL)	72%	70%	70%
\$77,000-\$88,000 (350-400% of FPL)	70%	70%	70%

Rate Regulation

The President proposed ongoing rate regulation of health insurers' unwarranted premium increases. This proposal was already in the House and Senate bills during the two to three year interim period but ended once the Exchanges and underwriting reforms were in place to improve competition in the individual and small employer markets. The Exchange would afford consumers transparency of health plan prices and quality, minimum loss ratios, covered benefits and an experienced price negotiator. The underwriting reforms would allow consumers to change plans annually if the plan proposed a rate increase out of line with its competitors.

What does rate regulation potentially add to this mix? Its greatest importance in our view is to review rates in uncompetitive markets where a single carrier dominates



the entire market (either statewide or regionally) and is therefore able to secure premiums far higher than would otherwise be warranted in a truly competitive market. In regions of California, such as the rural north, portions of the Central Valley and Central Coast, rate regulation could be useful in restraining monopolistic pricing practices. What does insurance rate regulation fail to add? It does not address the rise in hospital and doctor charges, fees and rates, which may also be unchecked in the absence of adequately competitive markets in certain regions.

Closing the Medicare donut hole

The donut hole refers to an aspect of the Medicare prescription drug coverage (Part D) for seniors and the disabled where the Medicare program does not pay for cover drug costs between \$2830 and \$4550 annually; i.e. Medicare pays for its share below \$2830 and above \$4550 in annual expenses, but nothing in between. The President opted for the better House version that closes the donut hole entirely on a phased in basis over the next 10 years, beginning with a \$250 reduction in the donut hole in 2010.

Improving access to primary care

The President opted for a compromise between the Senate and House versions that would increase funding for Community Health Centers by \$11 billion over the next 5 years.

Financing

Individuals

The President opted for the lower Senate approach under which individuals who do not purchase or enroll in health insurance would pay a flat amount or a percent of income. The President proposed to lower the flat amount from \$750 to \$695 (in 2013) and increased the percent of income from 0.5% to 1.0% in 2014, from 1.0% to 2.0% in 2015 and 2.0% to 2.5% in 2015 and thereafter. The President opted for the House policy of exempting all individuals with incomes less than the federal tax filing threshold (\$18,700) and the Senate policy of setting the financial hardship exemption at 8% of income.

Employers

The President's proposal improves upon the House and Senate versions for both large and small employers. The President proposes greater tax credits (\$40 billion) than either the House or Senate version (beginning in 2010) to improve affordability for small employers (below 50 employees); small employers are under no obligation to offer coverage. The Senate version applies penalties on larger employers only if their employees receive public subsidies through the Exchange. The President proposes changing the Senate's \$750 per worker penalties for larger



employers who do not offer coverage by exempting the first 30 employees in calculating the penalty. He also proposes reducing from \$3000 to \$2000 the penalty on those large employers who offer coverage, but whose employees use the public subsidies in the Exchange because their share of premiums through their employer is too high. The President would also eliminate any employer penalties for employees who use public subsidies during waiting periods of up to 90 days.

Cadillac Benefits Tax

The President opted for the Senate's proposal for an excise tax on the most costly insurance plans to encourage employers and employees to purchase more cost-effective coverage. He proposed to further increase the threshold for the excise tax to \$10,200 for singles and \$27,500 for families. Under the President's proposal the effective start date is delayed five years until 2018 and applies to virtually all plans equally, and there are adjustments for age, gender and high risk occupations so that the tax does not inadvertently reach plans that are high cost due to the age or gender of the employees or their inherently risky occupations.

Broadening the Medicare Health Insurance Tax Base

The President proposed the Senate version of a 0.9% increase in the Medicare payroll tax for employees earning over \$200,000 for an individual or \$250,000 for married couples. The Medicare tax would also apply to unearned income for individuals in these tax brackets. These taxes would be earmarked to the Medicare program (Parts A and B) and extend its solvency.

Fees for Brand Name Pharmaceuticals

The President proposed to increase these fees by \$10 billion over the House and Senate versions to \$33 billion over 10 years and delay the implementation until 2011.

Fees for Insurers

The President would delay the implementation until 2014 when coverage begins – revenues of \$67 billion over 10 years.

Fees for Medical Device Manufacturers

These fees (\$20 billion over 10 years) would be delayed as well until 2013.

Fraud and Abuse

The President proposes to include a series of measures to reduce fraud and abuse in the Medicare and Medicaid programs that were part of the Republican proposals or the Administration's 2011 Budget Proposal.



State Match

The President proposes a better match for states than either the House or Senate bills. The President proposes 100% federal match for three years (2014-17), 95% for two years (2018-19) and a 90% match thereafter. The President would also increase the federal match by eight percent for states (like Massachusetts and Vermont and to a lesser degree California), which were early adopters of Medicaid expansions for adults. Nebraska is treated the same as all other states.

Medicare Advantage

The President's proposal would phase down the 14% unwarranted (i.e. in excess of Medicare fee for service costs) subsidy for Medicare Advantage plans through a combination of competitive bidding (Senate approach) and benchmarks (House version). Plan subsidies would have performance bonuses for high quality and high enrollee satisfaction.

NEXT STEPS

You may want to let the President and your elected Congressional representatives know your views on the President's proposed compromises.

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ⁱ See <http://www.whitehouse.gov/health-care-meeting/proposal/whatsnew/overview>

ⁱⁱ These premium quotes are from <http://www.ehealthinsurance.com> for Santa Monica CA. They are current individual market premiums as opposed to premiums in 2014 in a reformed individual market. These examples do not adjust for the difference in actuarial values, which is also a part of the calculation as described in the next chart.

ⁱⁱⁱ These individuals and families are eligible for Medicaid (Medi-Cal), but may apply to the Exchange if they prefer private coverage to Medicaid.