

Dear Colleagues,

As most of you know the legislative leaders, legislative staff, Governor and administration staff have been working very hard all year to develop a health reform proposal that can pass the legislature and win voter approval. We all owe them many thanks and our best wishes for completing this task successfully in the new year.

The Senate is scheduled to consider the bill and vote in mid-January and your Senators need to hear your views on the reform measure. We have attached a matrix summarizing the bill, a summary of the ballot measure and a summary of the December 17 changes to the bill that the Governor and Speaker now endorse.

We expect there will be a lot more information available as groups refine and make their pitches to make final changes to the bill. These are ITUP's views with the information we have today.

The bill's expanded eligibility will reach all but undocumented adults. There are exemptions from the individual mandate where compliance would cause a hardship for individuals or families. Coverage through Medi-Cal or Healthy Families is available to all adult citizens and legal permanent residents up to 250% of FPL. Coverage through Medi-Cal or Healthy Families is available to all children up to 300% of FPL. Refundable, advanceable tax credits are available through MRMIB to subsidize individual coverage for those with incomes 250 to 400% of FPL with the credits properly designed to help those with the greatest affordability challenges due to family size and age.

Under the bill, MRMIB will make the final decision on the minimum benefits package. The legislative direction is to achieve the right balance of access to services, assurance of prevention, coverage of catastrophic expenses and affordability – a tall order.

The insurance reforms fix a long-standing problem of individuals with serious medical conditions being unable to buy coverage in the individual market. The reforms assure guaranteed issuance and renewal of individual coverage, halt the pernicious practice of rescissions and allow for price variations based on age, family size and geography. It stops the industry practice of medical underwriting for individuals, but unfortunately not for mid-sized employers – a protection that was deleted in the December 17 amendments. Persons with existing coverage that does not meet the new minimum benefits can keep it or upgrade it; it's their choice. Individuals who apply for and receive a hardship exemption from the mandate are not assured the guaranteed issuance of individual coverage so long as they are exempt from the mandate; they must choose between a hardship exemption and guaranteed issue.

The important cost containment approaches contained in the bill are designed to make the markets work better and help individuals to better health. They include pay for

performance incentives for providers, healthy actions incentives for individuals, and improved transparency of price and quality information so that patients can make better informed choices about their choice of doctor, hospital, health plan and medical treatments. The bill also includes provisions to hasten the spread of information technology throughout the health industry. The bill does not but should assure Internet posting of premiums and medical loss ratios for individual and small employer coverage to facilitate comparison-shopping. The bill does not regulate provider rates, insurance premiums, hospital construction and costly new technologies, but rather relies on improved transparency, stronger incentives and better-informed purchasers to achieve the needed slowing of the rise in health care prices. The reforms include a series of measures to improve overall population health, better treatment of chronic conditions and a system based on prevention, and primary care medical homes for all Californians.

The bill is financed with an employer payroll tax, individual premiums, hospitals net patient revenues tax, a cigarette tax, and federal and county government matches being submitted to the voters as a ballot measure – “shared responsibility”. There is little to no impact on those with existing coverage other than the hope for a coverage expansion dividend in which health plans and hospitals could eliminate the “hidden tax” that pays for uncompensated care.

- The employer tax is graduated based on the size of payroll from 1 to 6.5% of wages and capped so that wages above the Social Security wage caps are not taxed. This approach is beneficial to small and low wage employers who do not now offer coverage and far preferable to the approach and impacts of SB 2 on low wage workforces.
- All individuals must enroll in their employer’s coverage or enroll in expanded public coverage or purchase individual coverage at their choice; there are protections against “crowd out”, a concern that individuals may drop their employer coverage to enroll in public coverage. Premium subsidies are available through coverage expansions and refundable tax credits for low, moderate and middle-income individuals with incomes up to \$40,000 for an individual and \$80,000 for a family of four.
- The hospitals’ 4% of net revenues tax pays for the state share of increasing Medi-Cal hospital rates to Medicare levels and for the hospital component of the coverage expansion.
- The federal government pays half the cost of the Healthy Families coverage expansion for uninsured parents and children and half the cost of the rate increases for hospitals and doctors.
- Counties that now provide care to the MIAs (uninsured medically indigent adults without minor children living at home – the working poor) will pay a 40% match for the costs of their coverage as they enroll in managed care plans offered by Healthy Families and Medi-Cal.

As up to 4 million uninsured and mostly working Californians and their families will become insured as part of the reform package, local safety net providers will face a new challenge competing with private hospitals and doctors in managed care plans for the safety net providers’ existing patients. The transition for safety net patients and providers is two-fold: patient choice of providers and plans and a shift to a managed care delivery system with a primary care medical home. Most safety net providers have a competitive edge in location, local reputation, familiarity with the patients and cultural and linguistic

capacities, but lack the organized system of care with its emphasis on a primary care and medical homes for these uninsured patients. However they already have such a system in place for existing Medi-Cal patients and compete well within it; some county safety nets are extraordinary pioneers in developing innovative local coverage for the uninsured. The bill gives all public hospital delivery systems up to six years to transition to the new system for the MIAs (medically indigent adults) with incomes below poverty. This is longer than the transition provided in earlier versions of the bill. In our view six years is longer than is realistically needed to make the necessary local changes, and its length may encourage delay in some counties rather than facilitate transition; this could hamper rather than aid the necessary evolution in safety net care systems. The two-year extension provided in the bill should be reserved for the truly exemplary and pioneering local safety net programs.

Without financing, reform is not possible, and the proposed financing will be contained in a ballot initiative to go to the voters in November 2008. It was filed on Friday December 28. The ballot initiative proponents are likely to include the Governor, the Speaker, and a broad coalition including elements of business, labor, providers, consumers and health plans. SEIU and others will be collecting signatures and would certainly appreciate any help you can give. Anticipated opponents will be well funded and are projected to include Blue Cross, tobacco companies, the California Nurses Association and other elements of business, labor and consumers; they will range from single payor proponents, to those favoring the status quo, to those supporting a system of federal and state tax subsidies for individual, portable high deductible plans.

With best wishes for your New Year and progress for California's uninsured,

The ITUP staff