

To Health!
(not to be released before 2/7/07)

Insured Americans pay twice as much for health care as compared to other developed countries, yet, we have poor outcomes in life expectancy and other important measures of health. In addition, one fifth of our population lacks public or private coverage. Ours is a system in need of repair.

The Governor and Legislative leadership have made an excellent start in putting on the legislative table the elements of major health reforms in spiraling costs and inadequate coverage.

Over six and a half million California residents are now uninsured. Most are employed with wages too high to qualify for California's public programs, but far too low to purchase coverage on an individual basis.

Governor Schwarzenegger, Assembly Speaker Nunez and Senate President Perata's proposals serve as an excellent starting point for state policy makers to craft a careful and thoughtful plan to cover all of California's uninsured. Their plans combine the best of the public and private sectors, and promote improved affordability for businesses, individuals and working families.

Family coverage now costs on average two thirds of the annual salary of a minimum wage worker. Federal matching funds are available to pay half or more the costs of coverage for low and moderate wage working families. California has not yet joined the other states offering coverage for parents because it lacks the necessary state match. Combining employer and employee contributions with federal and state matching funds is referred to as the concept of "shared responsibility." It is the best way to make family coverage affordable for low and moderate income working families. This element is included all three plans.

Each proposal includes a purchasing pool operated by MRMIB¹ to negotiate with health plans for coverage for the uninsured. The pool is the most efficient way to secure and distribute federal matching funds available to make coverage affordable, and to negotiate and purchase the best coverage available for plan subscribers. State and federal employees and California's large private employers already use this concept to negotiate for benefits. Massachusetts' widely hailed, bi-partisan legislation, signed earlier this year by Governor Romney, had a similar provision.

All Californians should be covered for a basic package of essential services. Care must begin with prevention and primary care, not in the hospital emergency room or on the operating table. The high deductible, consumer-directed, health savings account or catastrophic coverage plans lack the

¹ MRMIB (Managed Risk Medical Insurance Board) has an excellent track record of negotiating for cost effective coverage, and is popular with subscribers, providers and plans. MRMIB was designed from the start with lean administrative structures, needed flexibility in program administration and a public-private framework and design.

necessary emphasis on prevention and wellness for those uninsured with low and moderate incomes. In fact, they warp wellness incentives essential to Californians' good health. An emphasis on coverage for clinically-proven and cost effective benefits, starting with prevention, is at the foundation of all three proposals.

Past proposed mandates have foundered on the challenge of developing affordability for low wage workforces and businesses. Yet, without some form of "shared responsibility" for individuals, employees and all businesses as proposed by Governor Schwarzenegger, Speaker Nunez and Senate President Perata, the issue of the uninsured will persist. The key tests of any legislative solution are whether it resolves affordability and sustainability of coverage. Each proposal seeks to address these issues by tying contributions to a set percentage of wages. In recent polling, California citizens strongly support the essential proposition that all should be covered, and all should contribute.

Shared responsibility is the proposed method of financing for the Governor, the Speaker and Speaker Nunez. This will provide some relief to all the privately insured who not only pay for their own coverage, but also pay through the "cost shift" for the uncompensated care of the uninsured in their local hospitals. Increasing Medi-Cal reimbursement as Governor Schwarzenegger proposes would further reduce the uncompensated care burdens on local hospital and doctors. This "hidden tax" on private insurance is, we believe, not as large a burden nor as large a potential savings, as has been portrayed because a significant share of care to the uninsured occurs in public hospitals and community clinics that lack privately insured patients to whom uncompensated care costs can be cost shifted.

Hospitals and doctors have raised concerns about paying for a part of the reform package through the Governor's proposed 4% and 2% assessments, respectively. The states of Minnesota and Washington have financed coverage in this manner for more than a decade with positive results and without adverse consequences, and the growth in these funds keeps pace with medical inflation. Massachusetts has paid for its hospital uncompensated care pool in this fashion for nearly twenty-five years.

Adding 6.5 million new subscribers to the health care system would allow hospital and health plan rate negotiators to spread the fixed costs of the health system across a broader base of subscribers. If the negotiations are based on the real and transparent costs of care (as opposed to largely fictional hospital charges, which now run about four times actual hospital costs), rate and premium reductions could and should occur. The reform legislation needs to include measures to assure this result; we do not need to further fuel medical care inflation.

Private insurance health premiums have been increasing at two, three and four times the rate of workers' wages for seven years in a row and are putting severe cost pressures on employers and employees. All three measures make a good start in outlining the necessary steps to bring deeply rooted health care inflation under better control for Californians. These proposed approaches include group purchasing, electronic medical records, pay for performance, transparency of price, quality and utilization data, information on medical efficacy and treatment efficiency, wellness incentives, chronic disease case management and limits on excessive administrative costs. Plans, providers and consumers need the proper incentives, information and mechanisms in place for the health system to become far more cost efficient. The current health system rewards ever-higher prices and the utilization of medical

services of little or no efficacy. Legislators from both parties and the Governor will need to find common ground and agree on truly effective cost controls for public and private coverage.

Today, we have Gubernatorial and Legislative leadership and attention focused on this important issue -- this is the time to summon the better angels of our natures. This is the time when we all have to rise to the possibility of real reform, put aside our skepticism, egos and particular self-interest to negotiate a better future. Whatever it ends up becoming, we are off to a good start, and it's up to each one of us as citizens of California to make sure that passage of universal coverage legislation does happen this year.