



Thoughts on California's Health Reform Proposals

Cover Letter
August 20, 2007

To: ITUP Conference and Regional Workgroup Participants
From: Lucien Wulsin, ITUP
Re: Covering the Uninsured

Attached are some thoughts on expanding coverage for the uninsured. The key decisions are how do you pay for it and how do you control escalating costs.

I think the most important decision on financing is affordability: are premiums linked to income or wages and thus to ability to pay for coverage? On this issue, both the Governor's proposal and AB 8 (Nunez and Perata) do a far better job of assuring affordability for both employers and employees than the existing system does.

The second decision is whether we stick with employer financing or do we move towards a system less reliant on employers to pay for the costs of private coverage. The Governor's plan makes the largest steps away from the current heavy reliance on employer financing; the Nunez-Perata plan moves significantly but less dramatically away by bringing in federal financing for coverage of low and moderate income working families.

Where are possible compromises -- midway on the employer assessment with caps on employer expenditures; individual mandate with caps on individual expenditures; and an additional funding stream such as a small sales tax on all health services covered under the reform or a small enrollment fee for those with state subsidized coverage?

Reform needs to improve the quality of care while reducing the soaring rise in medical costs and premiums. Ever-rising health costs imperil workers' wages and the global competitiveness of California business. High health spending in the US is not linked to higher quality health care and better health outcomes, but rather surprisingly to comparatively worse population health outcomes. Constraining future growth in health spending must focus on much improved performance of the health system on the key issues of price, quantity and quality. Data, consistent incentives and steady pressure to improve and achieve the stated objectives will be needed.

What do you think?



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Now is the time when a grand compromise could emerge from the Governor and legislative leadership. These are ITUP's thoughts on compromise options:

Coverage

It should phase in coverage for all Californians.

There are an estimated 4.9 million uninsured Californians at any given point in time. Most (over 80%) are workers or their family members. Most (over 60%) are young. Most (over 60%) are low and moderate income (i.e. below 200% of FPL, about \$40,000 for a family of four).

AB 8 covers all California workers, but does not cover the self-employed, short or longer term unemployed, early retirees or the homeless, primarily because it lacks an adequate and appropriate funding source for their coverage,

The Governor's proposal mandates that all Californians purchase coverage, but excludes premium assistance for undocumented adults. This is a political decision, reflecting strong divisions among citizens about extending public benefits to the undocumented.

ITUP recommendation

- 1) Reform should cover the small percentages of uninsured (less than 20% of all uninsured) that are self-employed, unemployed, disabled, early retirees or homeless. Many state residents face temporary unemployment, disability or forced early retirements and others start up their own businesses, beginning with self-employment. We suggest possible funding options for their coverage under financing.
- 2) At a minimum California should cover emergency care for undocumented adults who are working in this state, seeking federal funds available for these purposes and matching federal Medicaid funds with financing from the undocumented worker and his/her employer.

Benefits

It should at least cover basic benefits for all.

Both AB 8 and the Governor's plan would cover the state's basic minimum benefits package such as hospital and physician services required by Knox-Keene plus prescription drugs. The Governor's plan proposes to link its individual mandate to a \$5000 deductible plan. AB 8 would require MRMIB to develop and offer three plans with different levels of cost sharing and benefits. Both approaches use an important new concept known as a benchmark plan (which is not yet defined) to offer comparable benefits to low and moderate working families with public or private coverage.

ITUP recommendation

Plans with \$5,000 deductibles are more affordable but would leave moderate-income workers (about \$26,000 annually for an individual) with excessive exposure for out of pocket health costs

– nearly 20% of their annual incomes -- before they qualify for any financial assistance in accessing health care services. Such plans should have upfront first dollar coverage for a package of age and gender appropriate vital preventive services: whether prenatal care, an annual physical, immunizations or breast, prostate and cervical cancer screening.

Financing

All should contribute to the solution.

The Governor's plan seeks contributions from employers, employees, individuals, hospitals, and doctors, federal and county governments. It does not include any state government funding.

AB 8 seeks contributions from employers, employees and the federal government. It does not include contributions from providers or counties. It also does not increase Medi-Cal reimbursement rates for providers or cover as many of those individuals using county health services as the Governor's plan does.

ITUP recommendation

- 1) Reform should assure private or public coverage for all state residents, should require all residents to enroll in available coverage and should fold in all federal, state and county funds that now pay for care to the uninsured as the uninsured are covered by the new program.
 - a. This includes county realignment, federal Safety Net Care Pool and public and private DSH funds, and unique public programs that cover treatment of the uninsured for only one condition such as pregnancy, tuberculosis, genetically handicapping conditions, breast, prostate or cervical cancer or only one service such as emergencies, hospitalizations or primary care.
 - b. Funds should follow the patients as they enroll in coverage, and residual funds and programs should be maintained and used for those not yet enrolled and covered in the coverage expansion.
 - c. Public health spending should be separated and maintained.
- 2) California could seek a large federal waiver to secure federal match on county and state spending on care/coverage for uninsured adults. We need to be willing to negotiate changes in the Medi-Cal program to make it more effective in covering and treating patients with costly medical conditions not now in managed care.
- 3) California could implement a broad based, sliding fee for all state residents with publicly subsidized health coverage.ⁱ
- 4) California could increase taxes selectively for specific designated purposes with voter approval:
 - a. California could increase its cigarette tax to pay for coverage of the chronically ill, uninsured children and adults, to reduce the states' incidence of smoking and to improve the public's health.
 - b. California could expand its sales tax to health services (at a reduced rate) to pay the state match for the increased provider reimbursement rates under the Medi-Cal program. Washington state and Minnesota already use this form of financing for coverage of the uninsured.
 - c. California could provide health coverage for the self-employed with comparable financing to the proposed health coverage financing for employees. Social Security already does this.
 - d. California could increase its UI (Unemployment Insurance) payroll tax minimally to pay for health insurance for the unemployed uninsured as Massachusetts did. California could increase its SDI (State Disability Insurance) payroll tax to pay for health coverage for uninsured disabled workers.
 - e. Taxes should be submitted to the voters for approval in a state ballot initiative.ⁱⁱ
 - f. Revenues should be dedicated to health coverage and deposited in a special fund that can be used only for those purposes.

Insurance reforms

All should be able and required to purchase basic coverage.

The Governor's proposal would apply existing rules of guaranteed issue and renewal to the individual market and require all residents to secure public or private coverage.

AB 8 would fund the existing high-risk pool for the medically uninsurable and regulate and standardize the grounds for denying coverage of individuals based on their medical conditions.

ITUP recommendation

- 1) Guaranteed issuance of individual coverage makes sense if tied to implementation of an individual mandate; this is the easiest reform for consumers, plans and state government to understand and administer.
- 2) Without an individual mandate, California could adequately fund its Managed Risk Medical Insurance Pool through an assessment on all health plans. Other states already do this.
- 3) California should regulate plans' medical underwriting exclusionary and renewal practices for mid sized employers so that all plans operate on a level playing field and all employers and employees have access to coverage.

Quality improvements

Health reform must improve the quality of health care and improve patients' health; we now have poor health outcomes as compared to virtually every other industrialized country, recently ranking 41st in the world in life expectancy.

Part of the problem is the lack of insurance for nearly 20% of Californians. Part of the problem is unhealthy behaviors, including smoking, obesity, violence and substance abuse. Part of the problem is a dysfunctional health care system that fails to comprehensively address individual and population health.

The Governor's proposal seeks to reduce obesity and smoking and improve cost effective treatments of chronic diseases, such as diabetes.

AB 8 has comparable provisions.

ITUP recommendations

- 1) Quality improvements require reliable, comparable and transparent information for patients and consumers on the quality performance of plans, hospitals and doctors.
- 2) Quality improvements require sustained participation by and financial incentives for providers, plans and patients to improve health outcomes.
- 3) Quality improvements should contain no exemptions, no loopholes for particular plans, providers or patients.

Cost containment

Reform must slow the rise in health spending; it is more than double the rise in worker's wages and rising health costs imperil the competitiveness of American workers in global markets and reduce take home pay for non health industry workers. The rise in health spending is due in roughly equal measures to a rise in health prices and a rise in use of more costly services.

The Governor's proposal combines better information for consumers/patients, better use of medical and technological advances, an effort to improve population health, incentives to improve quality and reduce medical errors, an effort to improve care and outcomes for patients with

chronic illnesses, program simplification, pilot programs merging employers' workers compensation and group health coverage and a higher portion of hospital and health plan revenues devoted to patient care.

AB 8 has similar provisions and much greater enrollment in and reliance on a state purchasing pool to negotiate with health plans for employers and employees.

Neither plan regulates hospital prices, health plan premiums, doctors' fees or prescription drug pricing. In the Governor's plan, there is a long overdue increase in physician and hospital reimbursement rates in Medi-Cal but without any corresponding requirement to pass the reduction in "cost shifting" to those employers and employees who pay for coverage.

ITUP recommendation

- 1) Consumers and employers need far stronger comparative information on prices, quality and effectiveness of medical care to make informed medical choices.
- 2) Information and incentives need to be accompanied by sustained legislative direction and monitoring to improve the cost efficiency of California's health system.
- 3) California needs to develop new approaches for controlling costs where markets are not by their nature competitive – such as single hospital communities.

Affordability

Employer based coverage and individual coverage are made more affordable by tax deductibility and pre-tax purchasing. However these state and federal tax advantages are most helpful to offset the costs of coverage for employees in higher income tax brackets.

In our research, affordability challenges are most severe for family coverage, for individuals over 50 years of age where premiums can be nearly three times as expensive as those for younger workers or single employees, and for low wage working families where private coverage would consume nearly two thirds of a minimum wage worker's salary.

The Governor's proposal includes a 4% payroll assessment on employers (of more than 10 employees) who do not offer coverage and a premium ranging from 3-6% of income for uninsured employees and individuals with incomes in excess of the federal poverty level. The Governor's plan also requires employers to set up Section 125 accounts so that employees can tax shelter their share(s) of health care premiums. Premium subsidies and wrap around benefits are available for low and moderate-income individuals and their families inside and outside the pool.

AB 8 has a 7.5% of payroll assessment on employers of all sizes and a premium ranging from 2-5% of wages for employees with incomes in excess of the federal poverty level. AB 8 has comparable provisions for Section 125 accounts. Premium subsidies and wrap around benefits are available for low and moderate-income workers and their families inside and outside the pool.

Pooling revenues as proposed both in the Governor's plan and AB 8 helps reach the otherwise difficult to cover flex workforce who work seasonally for multiple employers or part time for several employers or in temporary jobs or in contract jobs.

ITUP recommendation

- 1) Pooled purchasing must be easy to access and use for employers and employees.
- 2) The employer assessment and employee premiums should apply to all sizes of employers and all types of employees, including the self-employed, to prevent gaming incentives.
- 3) The assessments should be capped both to encourage cost efficient purchasing and to encourage California based job growth.

- 4) Employers should be encouraged to restructure employee premiums based on a percentage of wages to assure affordability inside and outside the pool.
- 5) Employees should pay the incremental costs of more costly plans and coverage to encourage cost efficiency incentives in plan selection.

No windfalls

As the uninsured are covered under either the Governor's proposal or AB 8, there will be substantial increased revenues for health care providers and plans and substantially reduced financial burdens for counties, clinics and hospital emergency rooms.

The Governor's plan seeks to recapture and redirect some of these windfalls to finance expanded coverage; AB 8 does not.

ITUP recommendation

- 1) Some of these windfalls should be redirected to help finance coverage expansion and others should be balanced with appropriate cost containment measures in the legislation.
- 2) It is important to monitor and report on windfalls and on the impacts of efforts to redirect them to support the reform effort.

Kids first

In the Governor's proposal and AB 8, all children are covered. However no funds are available to cover children already in cost-effective local Healthy Kids programs during the interim period until coverage begins.

ITUP recommendation

- 1) Children's coverage is the least costly and should be first implemented in 2008.
- 2) Existing federal and state program funds for uninsured children should be consolidated with new fundingⁱⁱⁱ to assure continuity of coverage for all children during the interim period pending implementation of the larger reform package.

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Recent reference materials

E. Richard Brown, The State of Health Insurance, California: Results from the 2005 California Health Interview Survey (UCLA Center for Health Policy Research, July 2007)
UCLA Center for Health Policy Research and California Budget Project, What Does it Take a Family to Afford to Pay for Health Care (UCLA Center for Health Policy Research, August 2007)
California HealthCare Foundation and Center for Governmental Studies, www.calhealthreform.org
Pacific Business Group on Health, Health Care Value Papers at www.pbgh.org
www.californiaspeaks.org

ITUP reports at www.itup.org

ITUP, Discussion of Reform Opportunities (February 2007)

ITUP, Impacts of Major Health Reform Proposals on Women's Health Coverage (June 2007)

ITUP, Safety Nets and Coverage Expansions, ITUP Recommendations (July 2007)

ⁱ Fees require a majority vote and cannot exceed the state cost of the covered service. California subsidizes health coverage with public programs and with favorable tax treatment of most private health premiums. An average annual fee of \$100 could generate up to \$3.6 billion for coverage; groups with no state subsidy for coverage such as federally subsidized coverage Medicare would be exempt.

ⁱⁱ Taxes approved by the state legislature require a two-thirds vote, while taxes with voter approval require a simple majority of voters.

ⁱⁱⁱ AB 1 or SB 32 could be appropriate vehicles for short-term funding options that could include an increase in California's tobacco taxes or an increase in criminal fines and forfeitures and First 5 funding for children 0-5.