

A Summary of the “Healthy Americans Act”¹

Authored by U.S. Senator Ron Wyden
January 24, 2006

Introduction

The Healthy Americans Act (S. 334) was introduced by Senator Ron Wyden on January 18, 2007. The Healthy American Act proposes to reform the healthcare system in multiple ways. It increases health care coverage through a combination of individual and employer responsibility. The Act requires Americans, with some exceptions, to purchase approved private health coverage, termed Healthy Americans Private Insurance (HAPI), through new state purchasing organizations called Health Help Agencies (HHA's).² Employer based health insurance will be terminated and employers will be expected to make a mandatory financial contribution to employee healthcare. The bill also focuses on maximizing preventative care and chronic disease management while emphasizing quality of care and cost effectiveness.

Healthy Americans Private Insurance (HAPI) & State Health Help Agencies

Americans, with a few exceptions, will be mandated to purchase Healthy Americans Private Insurance (HAPI) plans. The bill requires each state to establish a Health Help Agency (HHA) to serve as the single source of enrollment for HAPI plans, which are offered through private health insurance issuers. States will receive federal funding to establish HHAs during the first two years.

HHAs serve as regional purchasing pools and are responsible for soliciting and approving the bids of carriers to offer HAPI plans.³ HAPI plans must have a benefit package “at least as comprehensive as the Blue Cross/Blue Shield (BCBS) standard option offered through the Federal Employees Health Benefits Program.”⁴ Additional benefits added to standard plans must be priced and displayed separately. While carriers are permitted to offer HMO and HSA plans, the plans must be actuarially equivalent to the minimum standard benefit plan.⁵ Plans must also include wellness programs that encompass preventative care and chronic disease management, which will be discussed in greater detail later in the summary. HHAs will provide consumers with data on a plan's performance in prevention and chronic disease management. Private health companies will compete on the basis price and their standing in the provision of wellness programs.⁶

¹ Unless otherwise noted information was obtained from Senate Bill 334, Senator Ron Wyden, http://wyden.senate.gov/Healthy_Americans_Act/KER07016_xml.pdf (Accessed January 22, 2006).

² The Lewin Group, “Cost and Coverage Estimates for the ‘Healthy Americans Act,’” Senator Ron Wyden, http://wyden.senate.gov/Healthy_Americans_Act/HAA_Cost_Coverage_Report.pdf (Accessed January 22, 2006).

³ *ibid.*

⁴ *ibid.*

⁵ *ibid.*

⁶ *ibid.*

The use of HHAs is expected to significantly decrease administrative costs by eliminating insurance broker and agent fees and medical underwriting costs.⁷ Insurers are also expected to experience a reduction in premium collection costs because they will obtain payment from a single source, the state HHAs.⁸

Insurers

In addition to meeting plan guidelines, participating insurers are required to create and implement electronic medical records for each covered individual and use standardized common claim forms and uniform billing practices. This is expected to reduce duplication of services and increase administrative efficiency.

The bill ensures greater affordability among participants with higher risks by allowing insurers to only vary premiums based on geography, tobacco use, and family size. Insurers are not permitted to set premiums based on age, gender, industry, health status, or claims experience. The bill also sets limits on the application of preexisting condition exclusions, guarantees availability and renewal of coverage and prohibits price discrimination on health status or genetics. An implicit tradeoff may be that low-risk populations will be faced with higher than actuarially fair premiums while higher risk populations will benefit from lower than actuarially fair premiums.⁹

Individuals

Individuals are required to enroll themselves and dependents in a HAPI plan through the HHA of their State of residence. Exceptions to this individual mandate are those covered or enrolled in a health insurance plan through Medicare, the Department of Defense, an employee benefit plan through a former employer, health plans through qualified collective bargaining agreements,¹⁰ Indian Health Service, or the Department of Veteran's Affairs.¹¹ The exception for qualified collective bargaining agreements would terminate the earlier of seven years after the enactment of the Healthy Americans Act or when the qualified collective bargaining agreement expires.

The bill provides for financial incentives and other mechanisms to deter individuals from not enrolling in a HAPI plan. If an individual fails to purchase coverage and does not meet any exemption, the he or she will incur a financial penalty. The penalty will be equal to the number of months the individual was not covered, multiplied by the "weighted average of the monthly premium for a plan in the person's coverage class area, plus 15 percent."¹² States may waive the penalty if it poses a hardship on the individual.

⁷ *ibid.*

⁸ *ibid.*

⁹ Alan C. Monheit et al., "Community Ratings and Sustainable Individual Health Insurance Markets in New Jersey," *Health Affairs (Market Watch)* 23, No. 4 (July/August 2004).
<http://content.healthaffairs.org/cgi/content/abstract/23/4/167>

¹⁰ A qualified collective bargaining agreement is an agreement between an employer and an employee organization representing employees of the employer

¹¹ "The Healthy Americans Act Section by Section," Senator Ron Wyden,
http://wyden.senate.gov/Healthy_Americans_Act/HAA_Section_by_Section.pdf (Accessed January 17, 2007).

¹² *ibid.*

In order to ensure enforcement of individual responsibility, the bill requires hospitals and other providers to report uninsured patients or those who do not know their health insurance status to the HHA.

Premiums will be collected through the personal income tax system or from employee wages.¹³ Subsidies are available based on income and only apply to the cost of a minimum benefits package up to the average premium in an individual's area for that coverage.¹⁴ Full premium subsidies are available for individuals and families at or below 100 percent of the federal poverty level (FPL). Partial subsidies are available for individuals between 100-400 percent of the FPL on an income-based sliding scale. Subsidies will not be available for adult illegal aliens.

To relieve the burden for the cost of insurance, the bill creates the Health Care Standard Deduction. Eligible individuals will claim the new deduction on their federal income taxes. The amount a taxpayer may claim is dependent on their health coverage status and income level.

Class of coverage	Deduction
Individual	\$6,025
Married couple or domestic partnership	\$12,050
Unmarried individual with dependent children	\$8,610 plus \$2,000 for each dependent child
Married couple or domestic partnership (as determined by a state) with dependent children	\$15,210 plus \$2,000 for each dependent child

The deduction can only be claimed by individuals and families with incomes exceeding the poverty line and the deduction begins phasing at \$62,500 (\$125,000 in the case of a joint return) and is fully phased out at \$125,000 (\$250,000 in the case of a joint return).

Employers

The Healthy Americans Act will effectively do away with employer sponsored health insurance, thereby increasing portability of health coverage in the event that employees change jobs and increasing labor mobility. By eliminating employer sponsored health insurance, the bill also hopes to achieve savings by reducing administrative costs to employers and insurers. It will also force individuals to face the full cost of coverage and make them more efficient consumers of healthcare.¹⁵

¹³ *ibid.*

¹⁴ The Lewin Group, "Cost and Coverage Estimates for the 'Healthy Americans Act,'" Senator Wyden, http://wyden.senate.gov/Healthy_Americans_Act/HAA_Cost_Coverage_Report.pdf (Accessed January 22, 2006).

¹⁵ *ibid.*

The bill requires employers to make employer shared responsibility payments each calendar year. Employer contributions will be “equal to the number of full time equivalent (FTE) employees employed by the employer during the previous year multiplied by the percentage of the average HAPI plan premium amount.”¹⁶ The percentage is a function of the employer’s size and its revenues per full time employee on a sliding scale basis. For large employers (more than 200 FTE employees), the percentage would range from 17% to 25% and for small employers (200 or fewer FTE employees) the percentage ranges from 2% to 10%. If the Secretary of Health and Human Services deems that calculating revenue per employee is not appropriate for an entity (i.e. nonprofits and local governments), a formula of 2% for small employers and 17% for large employers will be applied.

The bill phases in employer shared responsibility payments during the first two years. Employers that offered their employees health insurance prior to the enactment “will make payments equal to the cash value of the health insurance provided and the amount will be added to the employees wages for the first two years.”¹⁷ Employers that did not provide health insurance will “make payments in first year equal to one-third of the amount otherwise required and two-thirds in second year.”¹⁸ Some organizations are concerned that the changes to employer sponsored health insurance may be disadvantageous to workers. Although the bill requires currently insuring employers to provide employers with cash equivalent increases in wages for the first two years, there is no guarantee that the elimination of health benefit program will result in a continued increase in wages with the same monetary value, resulting in a potential financial loss for the worker.¹⁹

Employers will also be responsible for administering the health plan selection process for employees and withholding of the minimum premium through the income tax.²⁰ Employers will also withhold from employee wages additional premiums owed by the employee for opting for more comprehensive coverage.²¹

The Healthy Americans Act also makes major modifications to health care tax policy by eliminating the employer deduction for most health benefits, with the exception of employer shared responsibility contributions and contributions to retiree health plans or collectively bargained plans.

Emphasizing preventative care and chronic disease management

Healthy Americans Private Insurance (HAPI) plans will be required to include initial primary care assessment and annual physical examinations that will provide beneficiaries with access and incentives to participate in wellness programs. Additionally, beneficiaries will designate a health care provider to monitor their health and serve as a medical home. With the first visit, the beneficiary and the primary care physician will create a care plan that will “maximize health of

¹⁶ “The Healthy Americans Act Section by Section”, Senator Ron Wyden, http://wyden.senate.gov/Healthy_Americans_Act/HAA_Section_by_Section.pdf (Accessed January 17, 2007).

¹⁷ Ibid.

¹⁸ Ibid.

¹⁹ “Lewin Group analysis of Sen. Wyden’s plan,” Physicians for a National Health Program, http://www.pnhp.org/news/2006/december/lewin_group_analysis.php (Accessed December 22, 2006).

²⁰ Ibid.

²¹ Ibid.

individual through wellness and prevention activities.” It will also provide comprehensive disease prevention, early detection, and chronic disease management that meet minimum standards. Beneficiaries will not be required to contribute for preventative items, services, early detection, disease management, chronic pain treatment items or services. Health insurers will also be allowed to provide premium discounts and other incentives for participation in wellness/chronic disease management, and other program designed to promote wellness. In theory, promoting wellness programs and chronic disease management will increase patient quality of life and effectively address health issues before they evolve into problems requiring acute and costly care.

The Healthy American Acts also proposes making amendments to Medicare to increase wellness, patient centered care, and cost effectiveness. It would allow adjustment on the amount of the Part B premium to reward positive health behavior such as whether an individual participates in weight management, nutrition counseling, or designates a health home. A beneficiary’s health home provider will receive a management fee that is based on the amount of time the provider spends with a Medicare beneficiary or his or her family to “provide chronic disease management or other services required in coordinating care.” In the current health care system, physicians are less likely to provide these services due to poor reimbursement rates. As a result, patients with chronic conditions are less likely to receive the regular care they require to avoid deteriorations in health that require costly medical interventions. The bill will make available a chronic disease management program for all Medicare beneficiaries and promote consumer decision making by establishing chronic care education centers.

The bill also provides for end-of-life care improvements for Medicare enrollees. At the end of life, beneficiaries often receive expensive procedures to extend their lives that do not necessarily reflect patients’ preferences. To correct this discrepancy in patient preference and received treatment, medical facilities receiving Medicare funds will be required to document and largely follow patient preferences in end-of-life care. An end-of-life care clearing house will also be provided to enhance consumer knowledge.

Medicaid

Those eligible for Medicaid would be transitioned to HAPI coverage. The Medicaid program will supplement HAPI plan coverage for items an individual would have received under the state Medicaid program but is not available through the HAPI plan. By placing these individuals under a private health plan, the Act would eliminate the cost-shifting that currently occurs due to Medicaid underpayments while improving their access to medical care.²² A private plan approach will also avoid the stigma normally associated with needs based programs.²³

Other Features

Another cost saving component of the bill is that it will require the Secretary of Health and Human Services to negotiate with manufacturers for Medicare prescription drugs. States will also be encouraged through financial incentives to implement certain medical malpractice reforms. In theory, the cost of medical liability insurance costs and settlements are shifted to the consumer;

²² *ibid.*

²³ *ibid.*

therefore by reducing these financial losses to providers, premium increases may be partially averted.

Federal Medicare DSH will be channeled into the Part A Trust Fund to "improve its fiscal solvency" while 90 percent of Medicaid DSH will be diverted into a newly created Healthy Americans Public Health Trust Fund to provide "premium and personal responsibility contribution subsidies and bonus payments to states for implementing medical malpractice reform & reducing the federal budget deficit."

The bill will sunset select tax preferences, which include:

- Income exemptions for Voluntary Employees' Beneficial Associations (VEBAs) that meet certain requirements. VEBAs are "associations of employees who have common employers that are set up to provide medical, disability and other benefits to their members."²⁴
- The inventory property sales source rule exception.²⁵ This rule exception is in regards to export sales of inventory and permits "up to 50 percent of the combined income of U.S. companies from export manufacture and sale to be exempted from U.S. taxes."²⁶
- The productivity activity deduction, which authorizes "a deduction for property manufactured, produced, grown or extracted in the US."²⁷
- The deferral of active income of controlled corporations, a provision that permits US companies to "defer taxes on income of controlled foreign subsidiaries until the income is repatriated to the US."²⁸

In theory, the elimination of these tax preferences will generate greater revenue for the federal government, facilitating the financing of the Healthy Americans Act.

Financing²⁹

According to an analysis conducted by the Lewin Group, the Healthy Americans Act would cover over 246.8 million people and over 99% of Americans would have health insurance. It is expected to be "fully paid for by spending the \$2.2 trillion currently spent on health care in America."

²⁴ The Lewin Group, "Cost and Coverage Estimates for the 'Healthy Americans Act,'" Senator Wyden, http://wyden.senate.gov/Healthy_Americans_Act/HAA_Cost_Coverage_Report.pdf (Accessed January 22, 2006).

²⁵ *ibid.*

²⁶ *ibid.*

²⁷ *ibid.*

²⁸ *ibid.*

²⁹ Unless otherwise indicated, information from this section was obtained from: The Lewin Group, "Cost and Coverage Estimates for the 'Healthy Americans Act,'" Senator Ron Wyden, http://wyden.senate.gov/Healthy_Americans_Act/HAA_Cost_Coverage_Report.pdf (Accessed January 22, 2006).

Due to administrative savings and increased price competition in the health insurance market, national health expenditures, forecasted at \$2.3 trillion in 2007, are projected to decrease by \$4.5 billion after implementation. The Lewin Group also estimates that the annual rate of growth in national spending would decline by approximately 0.86 percent, resulting in a savings of \$1.48 trillion between 2007 and 2016.

The \$812.9 billion in new federal funds required to implement the Healthy Americans Act are to come from

- Premium payments after subsidies (\$516.9 billion);
- Employer assessment revenues (\$89.3 billion);
- State and federal share of savings to Medicaid (\$153.5 billion);
- Reduced DSH payments (\$18.8 billion)
- Increased Social Security tax revenues - less offsets (\$13.1 billion); and
- Termination of certain business tax credits (\$22.9 billion)

States and local governments are expected to experience a savings of \$22.4 billion in safety-net programs, as most of the uninsured will become covered under the Act. Employer healthcare spending is projected to decrease by \$309.8 billion, with a proportion of the savings passed onto employees in the form of wage increases. Currently insuring firms would on average experience a reduction of \$3,928 and those with less than 10 employees would save approximately \$5,704 per employee.

While family premium payments are projected to increase by an average of \$2,481 (the figure includes the application of subsidies outlined in the bill), they are estimated to decline by approximately \$320 for families with incomes below \$10,000 while increasing by about \$6,000 for families with incomes of \$100,000 or greater.

Conclusion

The Healthy Americans Act is a highly complex bill, intended to achieve savings by directly addressing many of the inefficiencies in the nation's health care system and transforming consumer behavior through the promotion of information and financial incentives. While the Healthy Americans Act currently has no co-sponsors, it is expected to spark discussion and debate. It is unlikely to be enacted in 2007, as major health care reform is only feasible with the backing of the President.³⁰

³⁰ Ricardo Alonso-Zaldivar, "Health plan aims to cut costs, insure all," Los Angeles Times, <http://www.latimes.com/news/politics/la-na-health14dec14,1,2346755.story> (Accessed December 14, 2006).