Health Reform: Where Are We Now?

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Premier
Federal Affairs Network Meeting
June 16, 2009

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What's in "Health Reform?" As of Today

- Very broad sweeping legislation
- Major implications for providers beyond expanding coverage – using Medicare changes to pay for new coverage is inevitable
- Goal: review key elements under consideration – but dealing with moving targets
- Both cost and time needed for implementation make coverage phase-ins very likely, and possibly very long
- Little is fixed, all things are mutable, hold tight!

Key Elements to Health Reform

- Coverage expansions
- Delivery system reforms
- Financing of coverage expansions

- But I'm only going to focus on first
  - Little known yet about financing provisions of bills except for shared responsibility and Medicare "savings" very likely

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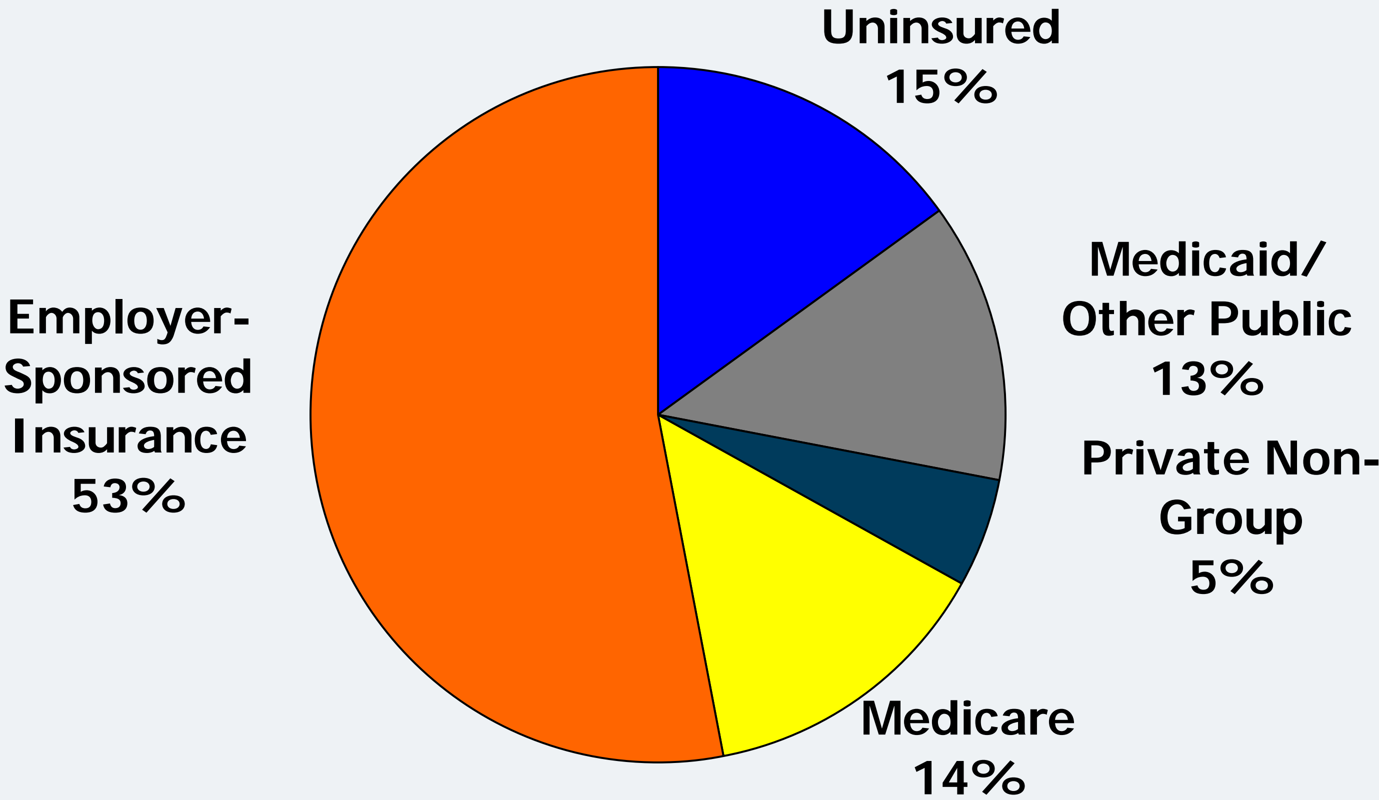
Health Insurance Coverage in the U.S., 2007



Total = 298.2 million

NOTE: Includes those over age 65. Medicaid/Other Public includes Medicaid, SCHIP, other state programs, and military-related coverage. Those enrolled in both Medicare and Medicaid (1.7% of total population) are shown as Medicare beneficiaries.
SOURCE: Kaiser Commission on Medicaid and the Uninsured/Urban Institute analysis of March 2008 CPS

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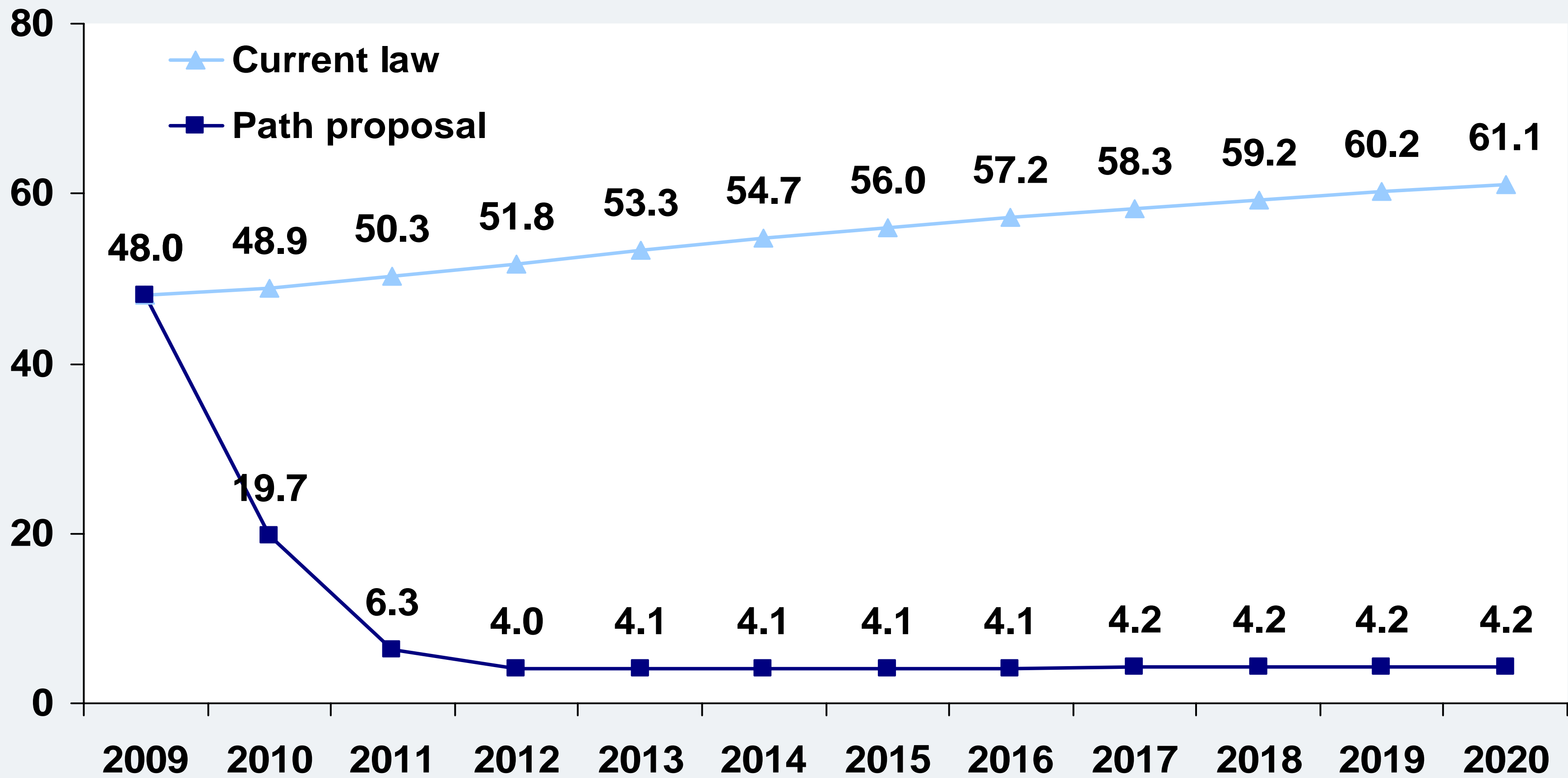
Trend in the Number of Uninsured, 2009–2020, Under Current Law and with Insurance Reforms and Exchange

Millions



Note: Assumes insurance exchange opens in 2010 and take-up by uninsured occurs over two years.
Remaining uninsured are mainly those who do not file taxes.
Data: Estimates by The Lewin Group for The Commonwealth Fund.
Source: Commonwealth Fund Commission on a High Performance Health System, *The Path to a High Performance U.S. Health System: A 2020 Vision and the Policies to Pave the Way* (New York: The Commonwealth Fund, Feb. 2009).

Coverage Expansions

General approach taking shape:

- Retain Medicare and employer coverage
- Individual mandate for coverage
- Employer mandate to “play or pay”
- Expand Medicaid/CHIP for lowest income groups
- Impose federal private market insurance reforms (w/ some minimum level(s) of benefits)
- Create “Health Insurance Exchange” or “Gateway” for purchasing private coverage
- Offer income-related subsidies for purchasing private coverage
- New public plan option?

Individual Mandate

- Require All Americans to obtain qualifying health insurance
  - Possible exceptions for religious affiliation, undocumented immigrants, affordability test
- Goals:
  - Achieve large enough insurance pool to spread costs of insuring high-risk individuals and create sustainable source of insurance
  - Promote shared responsibility (reduce “free riders”)
- Enforcement can be leaky
  - Default enrollment most efficient
  - Penalties for not enrolling

Individual Mandate: Similar Provisions

Senate Finance	Senate HELP	House Committees
• Personal responsibility coverage requirement • Coverage must be qualified • Enforced by tax • Affordability/ hardship exceptions	• Individual responsibility to have qualifying coverage (exception for state not yet in system; affordable coverage not available, or hardship) • Enforced by tax • Affordability/ hardship exceptions	• Individual responsibility to have coverage • Waiver process for those who cannot afford coverage • Enforced by tax • Affordability/ hardship exceptions

Republicans: may see some support (Senate?) depending on other features

Employer Mandate

- Most or all employers must offer and contribute to employees' health insurance or pay assessment/tax ("pay or play")
- Builds on current employer-based system, promotes shared responsibility for financing health coverage
- Concerns about costs to business
  - Exceptions for small, low-earning businesses could be difficult to target and administer
- Will level of assessment and availability of individual subsidies affect employer-based coverage?

Employer Mandate: Status Unresolved

Senate Finance	Senate Help	House Committees
Deciding between no mandate and play or pay	Deciding between no mandate and play or pay	Play-or-pay
PLAY •Employers with payroll >$500,000 •Contribute at least 50% premium. •Coverage must meet certain actuarial •Employee can opt out of ESI & get tax credit if eligible and if coverage purchased via Exchange	**PLAY** •Employer must offer qualifying coverage	**PLAY** • Not yet specified
PAY •Excise tax scaled to employer's total payroll (so that small, low-profit firms pay less or no fine)	**PAY** •Contribution for cost of coverage •Small firm exemption •Free Rider assessment on larger employers failing to provide qualifying coverage to an employee	**PAY** • Not yet specified

Republicans: Most are opposed to any employer mandate.

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Expand Medicaid and CHIP

- Possible expansion populations
  - Add coverage for very low-income childless adults currently ineligible
  - Raise income thresholds for children, parents, pregnant women

- Possible means of coverage
  - Traditional Medicaid/CHIP
  - Employer plan buy-in
  - Buy-in to private coverage options with wrap around
  - Choices may vary for different Medicaid populations

Expand Medicaid and CHIP -- cont'd

- Expand Medicaid/CHIP during recession when state budgets very tight?
  - Possible 100% federal financing for expansions, at least initially
  - Add automatic increase in federal match for future recessions
  - Formula changes for allocation of federal matching funds?
- What happens to DSH funds? ($9.4 billion in 2010)
  - Reduce/eliminate to help finance reform
  - Retain and redirect (Senate Finance)
    - Federal distribution of payments, not states
    - Targeted services
    - Uncompensated care

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Medicaid/CHIP Expansions: Awaiting More Details

Senate Finance	Senate Help	House Committees
• Expand Medicaid eligibility to 150% and some eligibles may get subsidies and wrap-around benefits rather than traditional Medicaid. • CHIP – current law until 10/1/2013, then eligibility expands to 275% FPL (coverage through Exchange) and benefits must include EPSDT	• Not in jurisdiction but supports expansion of Medicaid to 150% FPL for everyone	• Expand Medicaid for the most vulnerable, low-income populations

Republicans: support limited expansions of eligibility but for purchase of private coverage

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Private Market Insurance Reforms

- Federal rules for insurance sold to individuals and small employers aimed at creating a large, stable pool for coverage
  - Guaranteed issue and renewability
  - Prohibitions on pre-existing condition exclusions
  - Rating restrictions – limit premium differences for age, gender, health status, geography, family size, and other risk factors
  - Risk adjustment among insurers
  - Requirements for benefit offerings
  - Loss ratio requirements
  - Uniform? rules for all insurance (inside and outside of Exchange)
- State insurance departments continue primary role
  - Status of state mandated benefits unclear

Insurance Reforms: Similar in Approach but Likely to Vary in Important Ways

Senate Finance	Senate Help	House Committees
• Individual and small group coverage: guaranteed issue & availability & renewability • Age-adjusted community rating • Limits on pre-x exclusions • Same rules inside/outside Exchange	• Individual and small group coverage: guaranteed issue & availability & renewability • Age-adjusted community rating • Limits on pre-x exclusions • Same rules inside/outside Exchange • Limits on size of firm that can self-insure • Minimum loss ratios	No details yet except: •Guaranteed issue •Community rating

Republicans: Most would support more limited reforms depending on other features of proposal.

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Health Insurance Exchange

- Create “Health Insurance Exchange” or “Gateway” as intermediary between insurers and consumers
  - Standard enrollment application/process
  - Standard format for comparing plan choices
  - Marketing requirements
  - Consumer support

Insurance Exchange: Awaiting More Details

Senate Finance	Senate HELP	House Committees
• One or more Exchanges for individuals and micro-groups (1-10) • Once small group rating rules implemented, then firms of 11 to 50	• State-based Gateways for individuals and smaller employers • Federal fall back if state fails to establish Gateway	• National Exchange coordinated by new federal entity, with state option to develop exchange or to enter into regional exchange

Republicans: Mostly support concept of exchanges but only as clearinghouse to facilitate sale of private insurance to individuals and small firms

Subsidies for Private Coverage

- Make insurance more affordable by offering federal tax credits to individuals to subsidize private insurance
  - Seen as "paired" with individual mandate
  - Sliding scale by income, perhaps up to 400% of federal poverty level
  - Tied to cost of coverage
    - Lowest cost plan available?
    - Enrollment-weighted most common low-option benefit plan?
    - Average cost plan in a tier?
  - Logistics -- refundable, advance payable

Subsidies for Employer Coverage

- Targeted tax credits to smallest employers
  - May be paired with employer mandate or offered to firms not subject to mandate
  - Tied to cost of coverage and employee wages
    - For example, credit up to 50% of average statewide employer premium

Subsidies: Income Thresholds and Subsidy Amounts Likely to Differ

Senate Finance	Senate HELP	House Committees
• Individual: Sliding scale tax credits for those with incomes<400% of FPL to subsidize purchase of qualified coverage through Exchange	• Individual: Sliding scale credits for uninsured and others without other sources of coverage for those with incomes up to maybe 500% of FPL to purchase qualified coverage through Gateway	• Individual: Sliding scale credits to ensure affordability for low and middle-income individuals and families
• Small employer: Tax credits phased down to $0 for firms >25 workers and average employee earnings of $40,000	• Small employer tax credits (<50 workers) and with average incomes below $40,000	• Small employer incentives (Not yet determined)

Republicans: Mostly support refundable tax credits or deductions but for individuals at lower income eligibility thresholds to buy private coverage, or favor tax credits instead of tax exclusion for ESI.

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Benefits – What Level of Coverage?

- Individual and employer mandates, insurance exchange requirements for plans, and subsidies all tied to a level of coverage
  - Value of most common federal employee coverage?
  - Actuarial value?
  - Specified benefits/cost sharing?
  - Emphasis on prevention/wellness
- Aim is to be comprehensive, but benefits affect costs and financing

Benefits

Senate Finance	Senate HELP	House Committees
• Existing coverage grandfathered • Four benefit categories with different levels of cost-sharing (no lifetime or annual limits • All insurers must offer coverage in each of 4 categories • No other policies allowed	• Existing coverage grandfathered • Essential benefit package (eligible for subsidies) recommended by a Council to Secretary • Effective after 90 days unless disapproved by joint resolution of Congress • Plans in exchange must offer at least tiers 1& 2 of benefits	???

Republicans: most would oppose minimum defined benefits and would support giving insurers flexibility to offer different benefit packages

Public Plan Options

- Alternative models for “public plan option” are evolving
  - Medicare-like program
  - Program run by private contractor
  - State-run public plans
  - Non-public, private non-profit cooperatives (Conrad)
- Adequacy of payment rates
  - Based on Medicare?
  - Negotiated with providers?
- Must providers participate in new public plan?
  - Link with Medicare participation
- Who may enroll in the public plan?
  - Individuals/small employers only
  - Everyone, including employees of large firms
- When will the public plan take effect?
  - Fallback if private market fails ?
  - Sunsets in 5? years if found unnecessary (House Third Way option)

Public Plan: Unfolding Drama

Senate Finance	Senate HELP	House Committees
Undecided but identified options: •Medicare-like (HHS) with gov't administered provider payments •Multiple, regional TPAs with own provider networks and that negotiate provider payments, meet reserve requirements •State-run public insurance option •No public plan •Conrad's Cooperatives	• Originally included public plan offered through each Gateway; pay Medicare rates + 10% • Now up for discussion	• National plan, actuarially sound, administratively self-sufficient. • Compete with the private sector but not with unfair advantage • "Robust" payments to providers • Cooperatives may be OK but not instead of a public plan.

Republicans: Most are strongly opposed to any government-run plan.

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Is 100% Coverage Achieved?

- If and when all elements under discussion are implemented, near universal coverage attainable
- Who will be left out?
  - Undocumented immigrants
  - Those for whom coverage still unaffordable
  - Other exceptions to mandates
- Transition may be very long; transitional programs may be offered

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What Will it Cost to Cover the Uninsured?

- Costs depend on policy choices (benefits, subsidies, etc.)
- Administration proposed $635 billion over 10 years as "down payment" on new federal costs for subsidies and program expansions
  - Total cost of roughly $1 trillion over 10 years
- Health reform must be paid for over 10 years (Congressional budget agreement)
  - See need for initial investments to generate long-term savings
- Official "scorekeeping" of legislation by the Congressional Budget Office

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Major Sources of Financing Coverage Expansions

- Individual mandate -- premiums from individuals and families
- Employer mandate -- premiums or assessments from employers
- Medicare and Medicaid savings
- New revenue

Medicare and Medicaid savings

- Administration proposals total about $300 billion
  - Reducing payments to Medicare Advantage plans is more than half the total ($177 billion)
  - Balance from delivery system changes, home health payments, Medicaid drug payments, Part D premium, other changes

- President supports finding another $313 billion in Medicare and Medicaid savings

- Medicare savings being considered
  - Update factor reductions, teaching payment add-ons, other provider payment changes
  - Increased beneficiary contributions

Obama: Financing Sources (as of June 15th)

SOURCE	Health Care Reserve Fund ($ in billions)
	10 years
FY 2010 Budget • Medicare and Medicaid Savings • Revenues	**$635** $309 $326
Additional Medicare and Medicaid Savings	**$313**
• Incorporate productivity adjustments into Medicare payment updates	$110
• Reduce hospital subsidies for treating the uninsured as coverage increases	106
• Pay better prices for Medicare Part D drugs	75
• Other	22
Total	**$948**

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White House: Paying for Health Care Reform, $313 Billion in Additional Savings to Create a Deficit Neutral Plan, June 2009, www.whitehouse.gov

New Revenue

Limit tax exclusion on employer-paid health insurance

- About $226 billion in lost revenue annually
- Concerns about impact of eliminating exclusion on continued employer coverage
- Equity issues raised in capping exclusion – geography/other premium variations

Nonprofit hospital requirements

Other health-related tax changes

- Deduction for medical expenses
- Flexible spending accounts
- Health Savings Accounts (HSAs)

New Revenue (cont'd)

- Increased federal alcohol taxes
- New federal excise tax on sugar-sweetened beverages
- Limits on charitable contribution deductions
- Numerous other tax changes

Financing: Revenue Options

Proposal	Revenue 2010-2019 (in billions)
Limit income exclusion to 50% of premium amount	$1.173
Cap income exclusion at actuarial amount of FEHBP	$418.5
Repeal itemized deduction for medical expenditures >7.5% AGI	$180.7
Cap income exclusion at actuarial value of FEHBP for single filers with $100,000 or more in AGI	$161.9
Real exclusion for health expenditures made through FSAs and HRAs	$68.6
Excise tax of $16 per proof gallon on all alcoholic beverages	$61.5
Impose a federal excise tax of three cents per 12 ounces of sugary beverage	$51.6

Source: joint Committee on Taxation, Preliminary Estimates June, 2009

“Bending the Cost Curve”

Sources of Growth in Projected Federal Spending on Medicare and Medicaid (Percentage of GDP)

20
15
10
5
0

Effect of Excess Cost Growth
Interaction of Aging and Excess Cost Growth
Effect of Aging Population

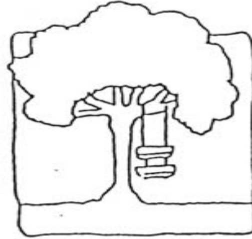
2007 2022 2037 2052 2067 2082

Source: Congressional Budget Office

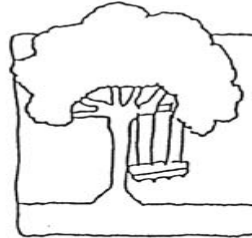
Final Observations

- Major battles expected over:
  - Role of government in providing insurance options
  - Level of subsidies, to whom and how
  - Financing
    - Medicare cuts
    - Tax changes
- But – putting scores of puzzle pieces together is huge undertaking with political and policy hazards
- A health reform bill will be signed by President Obama

HOW A BILL BECOMES LAW



AS CONCEPTUALIZED INSIDE AND OUTSIDE CONGRESS



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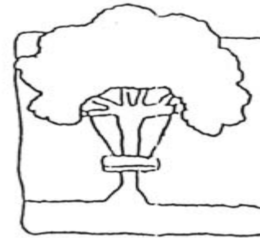
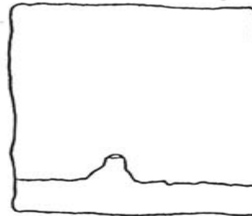
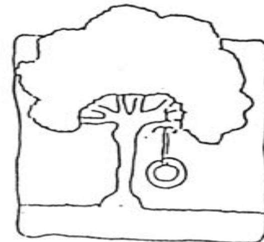


AS AMENDED AFTER COMMITTEE HEARINGS AND "MARK UP"

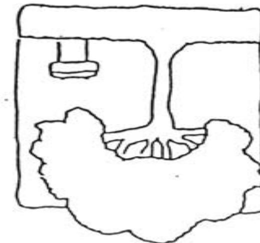
AS REWRITTEN BY MITCHELL STAFF



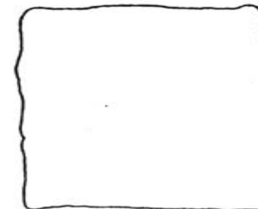
AFTER SENATE DEBATE



WHAT WAS ACTUALLY NEEDED



AS REPORTED BY THE MEDIA



AS UNDERSTOOD BY THE PUBLIC