

## **Little Hoover Commission – January 25, 2007**

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Good morning. Thank you for the opportunity to speak with the Commission about one of the most pressing issues affecting California today – our broken health care system – and the Governor’s recently announced plan for addressing our state’s health care challenges.

### **California’s Health Care System is Broken**

California is home to 6.5 million uninsured residents, over 20% of our non-elderly population. Predominantly, people who are uninsured are people who work. The vast majority lives in a household with a full-time worker.

The problem of the uninsured is not someone else’s problem. It is a problem that affects all of us – uninsured and insured alike.

Access to care for all Californians is affected by the uninsured. The uninsured are getting health care – though often in the least appropriate, most costly setting - ERs. Each year, hospital emergency rooms close from the strain of uncompensated costs – compromising access for all Californians.

The cost of care for all Californians is affected by the uninsured as well. Every insured individual pays a “hidden tax” to subsidize the uncompensated costs of care to uninsured Californians. This hidden tax is estimated to be 10% of premiums paid by insured Californians.

The state contributes to the “hidden tax” as well, by not paying Medi-Cal providers adequately for the care they provide, forcing providers to shift uncompensated costs to the insured – estimated to be an additional 7% of premiums.

This hidden tax is paid by individuals, families and employers. The 10% tax on premiums associated with costs of care for the uninsured alone is \$455 a year in additional premiums for individual insurance and \$1,886 a year for family coverage offered by employers.

Health care costs continue to rise, with health insurance premiums increasing at more than twice the rate of wages and inflation in 2005.

Chronic illnesses - like diabetes - and poor health choices – like tobacco and inadequate physical activity - drive up the cost of care.

Medical errors cause an estimated 23,000 hospital deaths and untold numbers of injuries each year in California and cost over \$4 billion annually.

Governor Schwarzenegger's health care reform proposal will reduce the hidden tax and lower costs, provide coverage for all and support better care, and create a healthier California.

The Governor's plan will fix the broken system through three essential elements of reform:

- Prevention and wellness
- Coverage for all
- Affordability

### **Prevention and Wellness:**

First, prevention and wellness. The Governor's plan recognizes that to promote a healthier California and better manage health care costs over the longer term, we must make health promotion, disease prevention and wellness a priority. Prevention pays off for our long-term physical and financial wellbeing.

The Governor's plan outlines a comprehensive prevention policy – one that encourages and rewards healthy behaviors through innovative health benefit designs; one that supports new efforts to prevent new cases of diabetes and better manage existing cases - one of our most costly and debilitating diseases; one that engages medical facilities and professionals to reduce medical errors by hundreds of millions of dollars, through electronic-Rx and other strategies; and one that recognizes obesity as our highest prevention priority.

### **Coverage for All:**

The second element of reform is coverage for all. The Governor's plan recognizes that health coverage for all Californians will benefit all Californians.

### **Shared Benefit**

**Individuals** will be healthier, benefiting from health care that is easy to obtain and affordable and that emphasizes prevention and wellness.

**Government** will benefit from a more functional statewide health care system, as well as from a healthy, productive, and economically competitive California.

**Doctors and hospitals** will be paid their fair share for the very important work they do; emergency rooms will be relieved of the burdens associated with the uninsured, making the emergency room more accessible for individuals with true emergencies.

**Health plans** will see the state's insurance pool expand by 4-5 million and will receive fair compensation for their services.

And, **employers** will benefit from lower health care costs and a healthy and productive workforce.

Just as all sectors of society share in the benefits of universal coverage, so too must each sector share responsibility for securing universal coverage.

### **Fixing the Broken System: Shared Responsibility**

Fixing our broken health care system requires changes from all of us. We must all come together and create a more functional market where everyone is insured and where providers are fairly compensated for their services - so that providers no longer need to shift uncompensated costs to payers. In so doing, we help to create a market that is more efficient, dynamic and competitive. With the dramatic reduction of the hidden tax, commercial payers will be able to demand – and health plans will be able to offer - more affordable health coverage to individuals and employers.

How will each sector share responsibility for fixing the broken system and achieving this new market dynamic?

Responsibility begins with the **individual**. Because our goal is coverage for all, individuals have a responsibility to obtain health insurance.

- Requiring that Californians have insurance is the most effective way to achieve universal coverage. Without an individual mandate, people will continue to voluntarily forgo coverage, shifting uncompensated costs to insured individuals.
- By taking responsibility to protect themselves against health care costs, individuals will protect society from a significant portion of the hidden tax.
- While some may bristle at this obligation, history has shown that some type of requirement is required to advance universal policies - as seen in school attendance, tax payment, and child safety seat laws.

Under the Governor's plan, individuals must obtain health insurance for themselves; parents must secure coverage for their children; everyone must take greater responsibility for their health; and all Californians, except for our state's lowest income residents, must contribute their fair share to the cost of coverage.

With coverage for all, we can stabilize the health care system – particularly our emergency rooms – and we can address approximately half of the overall hidden tax – providing significant relief to private payers.

**Government** has a responsibility to promote a functional health care system, to help lower income Californians obtain affordable coverage; and to fairly compensate Medi-Cal providers.

Under the Governor's plan:

- All children will have access to affordable health coverage. Healthy Families and Medi-Cal will be expanded for all children in families earning up to 3x the poverty level, or \$60,000 for a family of four.
- Subsidies will be provided through a new state-administered purchasing pool for working families earning between \$20,000 and \$50,000 a year.
- Medi-Cal will be expanded to cover low income adults below poverty.
- Counties will continue to have responsibility for undocumented immigrants and will have the necessary resources to support such care.
- The state will pay hospital, doctors and health plans fairly and increase Medi-Cal rates by \$4 billion to more closely align with provider costs.

With increased Medi-Cal rates, the balance of the hidden tax will be reduced – providing further relief to private payers.

**Doctors and hospitals** have a responsibility to provide affordable, quality care, partner with patients to improve wellness and health outcomes; and share in cost savings.

Under the Governor's plan, doctors and hospitals will be relieved of costs associated with caring for the uninsured and will receive significantly increased Medi-Cal rates – dramatically reducing the need for any cost shifts.

The proposal will direct \$10-\$15 billion to doctors and hospitals. In turn, the Governor's plan calls for doctors and hospitals to contribute a portion of this "coverage dividend" associated with universal coverage. Physicians will contribute 2 percent of revenues and hospitals will contribute 4 percent, ensuring some of the savings stays in the system to support total coverage and increased Medi-Cal rates to providers.

Providers have other responsibilities. Medical facilities and professionals will reduce medical errors and contain costs through new patient safety strategies.

And hospitals will contribute to the solution by making sure that at least 85 percent of hospitals payments are spent on patient care.

**Health plans and insurers** have a responsibility to ensure that insurance is available – so that individuals have the assurance and security that they can obtain coverage.

Under the Governor's plan, health plans and insurers must guarantee individuals access to coverage in the individual market. The plan establishes new market rules so that health plans cannot turn people away due to age, health status or occupation or drive people away through excessive premium rates. Health plans must spend 85% of every premium dollar on patient care. And, health plans will be required to make "Healthy Actions/Rewards" benefits available – an innovative health benefit design that encourages and rewards healthy behaviors.

Finally, **employers** have responsibilities as well. Employer-based insurance has been an integral part of our health care system since World War II and will continue to be a core element of our system of coverage.

Today, the majority of employers contribute to the cost of coverage. Under the Governor's plan, those employers with 10 or more employees who choose not to offer coverage will contribute 4 percent of payroll to help people without insurance buy coverage – a policy that levels the playing field between offering and non-offering employers, and that ensures that incentives aren't created for employers to drop coverage. Businesses with fewer than 10 employees make up 80% of California businesses.

In addition, all employers will be required to offer Section 125 plans that will allow employees to make pre-tax contributions to coverage.

In short, through shared responsibility, the Governor's plan ensures coverage for all.

### **Affordability:**

The Governor recognizes that coverage and cost are inextricably linked. We must drive down rising health care costs and provide relief for both the insured and uninsured alike. That's why the third essential element of reform is affordability.

Beyond addressing the hidden tax, the Governor's plan takes clear steps to make insurance more affordable in the short term, including providing individuals with access to additional tax benefits, requiring that a minimum of 85% of every premium and hospital dollar be spent on patient care, lowering regulatory barriers that impede innovation, limit patient choice, and increase costs, and reducing regulatory red tape that stifles innovation and increases cost.

The Governor's plan also proposes a number of strategies that are critical to longer-term cost management.

We must embrace and accelerate adoption of health information technology (HIT) to streamline operations, reduce duplication of services, and prevent medical errors. I am pleased that my colleague, Department of Managed Health Care Director, Cindy Ehnes, is participating in today's meeting and will share with you in more detail the HIT related elements of the Governor's plan.

The Governor's plan will leverage the state's purchasing power through Medi-Cal and tie a portion of future rate increases to performance. The Department of Health Services, in partnership with the Californian Cooperative Healthcare Reporting Initiative and the Integrated Healthcare Association, will collect data from providers and health plans to establish provider performance profiles based on quality measures. Using these quality and performance measures, Medi-Cal will move to a system in which positive financial incentives and rewards are paid to those providers who provide high-quality care and demonstrate continuous improvement in performance.

And, the state will help promote value-driven health care by making information about health care quality and cost available and useful to inform decision-making by consumers, employers and payers and drive the industry to perform at peak levels.

**Closing:**

In closing, all Californians – the uninsured and insured - are hurt by our broken health care system; all Californians will benefit from comprehensive reform based on shared responsibility. But shared responsibility goes beyond the nuts and bolts elements of the plan. All of us in Sacramento have a shared responsibility to work in good faith on reforming health care.

For too long, it has been too easy to list all of the reasons why health reform won't work. There are too many uninsured Californians. Health care costs are too high. But these are reasons why we have to engage in reform, not avoid our responsibility to tackle it. Health reform has never been easy in California or in the United States. We know that people will disagree with aspects of the Governor's plan. We anticipate and welcome this debate. We are committed to working with all parties, including the Little Hoover Commission, to understand these issues and the Governor's plan. We want to build the partnerships that are necessary to make health reform a reality.

Working together, we can reduce the hidden tax and achieve affordable health care; achieve coverage for all; support better health care; and create a healthy California.