Little Hoover Commission Public Hearing on Health Care
Written Testimony for Peter Harbage, New America Foundation
Thursday, February 22, 2007

California now has the greatest opportunity in a generation to reform our severely broken health care system. The debate currently underway benefits greatly from there being a range of perspectives involved, and it benefits from the full engagement of California's political leadership. Achieving agreement on a plan that will meet the needs of Californian's will not be easy, but there seems to be widespread agreement that such an effort to reach agreement is critical and that it can be successful.

For my testimony, I've been asked to address a series of different areas of reform and how that area is structured under various reform plans. Primarily, I offer an overview of the similarities and differences in the reform plans, with a special focus on the plans offered by Governor Arnold Schwarzenegger, Senate Pro Tem Perata and Assembly Speaker Núñez. I attempt to give an overview of their respective versions of shared responsibility as the basis to cover the uninsured by comparing the plans on key points. As I close, I will briefly address the single payer plan under discussion in California and the plan offered by the Senate Republican Caucus.

Hidden Tax

Currently, 20 percent or 6.5 million Californians are uninsured. In addition, many more are underinsured given skyrocketing premium increases and a shrinking employer coverage pool. With limited access to care, the uninsured and underinsured delay treatment until they are so ill that emergency ambulatory care is the final resort, forcing them to seek treatment in a high cost setting which many can ill-afford. When patients cannot pay, hospitals and providers are left holding the bill.

However, providers and hospitals do not have unlimited funds to finance the uncompensated care they are required by law to provided to the high numbers of uninsured and underinsured arriving at their doorstep. Like any business facing a loss, they must turn elsewhere to cover costs. They prepare for this reality by setting higher prices for the insured. This cost-shifting is, in essence, a hidden tax levied on the insured, resulting in a roughly 10 percent increase in health insurance premiums for Californians.

As insurance premiums rise, fewer employers and individuals can afford coverage. As more people lose coverage or can only afford "basic coverage," the uninsured and underinsured population grows, forcing hospitals and providers to provide more uncompensated care and further shift costs to the insured. Without comprehensive health care reform, California is caught in a self-perpetuating cycle.

Several papers have been published addressing the hidden tax issue, including:

- Peter Harbage and Len M. Nichols. *A Premium Price: The Hidden Costs All Californians Pay in Our Fragmented Health Care System*, New America Foundation, December 2006. Can be found online at: http://www.newamerica.net/publications/policy/a_premium_price

- FamiliesUSA, *Paying a Premium: The Added Cost of the Uninsured,* June 2005. Can be found online at: http://www.familiesusa.org/resources/publications/reports/paying-a-premium.html
- Allen Dobson, Joan DaVanzo, and Namrata Sen, *The Cost-Shift Payment 'Hydraulic': Foundation, History, and Implications,* Health Affairs, January/February 2006; 25(1): pp. 22-33.

Individual Responsibility

Although each have their own unique view of what individuals are responsible for in terms of health coverage, the plans offered by the Governor and legislative leadership all have some form of individual responsibility to purchase insurance.

- The Governor's plan requires all Californians to have either public or private coverage, with subsidies for low-income adults and families. The Governor's plan is specifies "basic coverage," as that with a $5000 deductible and $5000 cap on cost sharing. This plan is the most comprehensive of the three plans, even covering undocumented children through the current Healthy Families Programs.
- The Perata plan requires all working Californians and their dependents to show proof of a minimum level of coverage, to be determined by the state. It does not provide coverage for undocumented residents at any age, leaving this population uninsured and a continued burden on safety net systems.
- Under the Núñez plan, all workers offered coverage through their employer must accept the coverage, as long as it does not exceed a certain percentage of their income. The Núñez plan improves access, by doing among other things, expanding Medi-Cal and Healthy Families for all children up to 300% FPL.

Papers addressing the topic of individual mandates include:

- Peter Harbage and Cristy Gallagher. *Growing Support for Shared Responsibility in Health Care,* New America Foundation, August 2006. Can be found online at: http://www.newamerica.net/publications/policy/growing_support_for_shared_responsibility_in_health_care
- Cristy Gallagher. *From New England to the Golden Gate Bridge: A Look at Creative Coverage Expansions at the State and Local Levels,* New America Foundation, November 2006. Can be found online at: http://www.newamerica.net/publications/policy/from_new_england_to_the_golden_gate_bridge
- Linda Blumberg, John Holahan, et al. *Building the Roadmap to Coverage: Policy Choices and the Cost and Coverage Implications,* Urban Institute, May 2006. Can be found online at: http://www.urban.org/url.cfm?ID=1000979

Employer Mandate

Employers remain a critical component in all three proposed plans.

- The Governor's plan would require employers with 10+ employees who do not provide coverage to pay 4 percent of social security wages towards the coverage of the uninsured. Employers with less than 10 employees are exempt.
- Under the Perata plan, employers must offer coverage or pay an undetermined percentage of payroll to fund the state-run program.

- The Núñez plan requires employers to do the same, but exempts from these requirements businesses with less than 2 employees, less than $100,000 payroll or those in business for less than 3 years.

There is reason to believe that the Governor's approach maybe permissible under federal law (known as ERISA) which some believe may preempt the state's ability to implement a 4% fee. Though the case law is poorly developed, papers discussing ERISA implications and employer mandates include:

- Patricia Butler, *Insurance Markets: ERISA Implications for Employer Pay or Pay Coverage Laws,* California HealthCare Foundation, March 2005. Can be found online at: http://www.chcf.org/documents/insurance/ERISAPayPlayImplications.pdf
- Thomas Oliver, *State Employer Health Insurance Mandates: A Brief History,* California HealthCare Foundation, March 2004. Can be found at: www.chcf.org/documents/EmployerInsuranceMandates.pdf

Purchasing Pools

Like the Massachusetts approach, all three plans create purchasing pools administered under the Managed Risk Medical Insurance Board (MRMIB). Both the Governor and Perata plans require MRMIB to develop standards for coverage and to negotiate favorable rates by leveraging purchasing power.

- Under the Governor's plan, a purchasing pool is created as an option for those up to 250% FPL and offers subsidies on a sliding scale to those under 250% FPL.
- The Perata plan creates a three-tier purchasing pool program with subsidized coverage, from low-cost HMO coverage to high-cost PPO programs, and allows these programs to "buy into" Medi-Cal managed care plans. Market reforms would make purchasing pool policies widely available.
- Under the Núñez plan, the purchasing pool would offer subsidized coverage through at least three benefit plans to those who do not have employer coverage or buy coverage through the private market. It also restructures the existing state high-risk pool for uninsurable persons to offer coverage to all persons excluded from coverage due to pre-existing conditions.

Further information on purchasing pools can be found at:

- Rick Curtis, Ed Neuschler, *What Health Insurance Pools Can and Can't Do*, California HealthCare Foundation, November 2005. Can be found at: http://www.chcf.org/documents/insurance/WhatHealthInsurancePoolsCanAndCantDo.pdf

Implications for Medi-Cal and Healthy Families

All three plans contain expansions of the Medi-Cal and Healthy Families Programs. However, of these three plans, only the Governor's plan increases Medi-Cal provider payment rates, at a total of $4 billion.

Funding of the Plans and Affordability

Thus far, the Governor has offered the most comprehensive funding plan with fees called for on business (as discussed) as well as fees for physicians and hospitals to help recapture some of the savings that health care providers will see on a statewide basis through steps such as increased provider rates. The Governor's plan argues that health care providers will see an overall increase in net revenue even after application of fees.

The Governor has also offered a comprehensive view of how to address health care affordability, with specific insurance market reforms that would likely bring down premium costs. The Governor's call for improvements in obesity treatment, smoking cessation, disease management, and health information technology are aggressive and build on past legislative efforts.

Single Payer

The three plans I have described today are very similar in what they attempt to achieve in terms of system reform. In contrast, Senator Kuehl has, and continues to, champion a single-payer system. Under single payer, a state-run fund provides insurance coverage to all populations, thereby creating efficiencies through bulk purchasing and lowered administrative costs. Private medical groups and hospitals continue to provide care, but would be paid directly by the state instead of the 30,000+ different health insurance plans. Current premiums and co-payments paid by employers and individuals to private insurers would be replaced by an 8% payroll tax and a 3% individual income tax.

Senate Republican Plan

Rounding out our discussion of proposed reform plans is the plan put forth by the Senate Republican Caucus. Unlike other proposals, the Republican plan does not mandate that all Californians buy health care coverage. Instead, they propose offering tax breaks and other incentives for individuals and businesses to lessen their financial obstacles to purchasing coverage. The Senate Republican proposal explains that it is paid for solely through existing funds, including calling on the federal government to pay the mandated health care costs for illegal immigrants and reallocating First Five Commission tax dollars to children's health care initiatives.

There are some similarities in the Senate Republican plan to that of the Governor. For example, it calls for increasing Medi-Cal provider rates. And tax incentives are a common idea for reducing the cost of insurance. But the fundamental difference between the Senate Republican plan and the other plans discussed is that it does not directly address the market forces that underscore California's healthcare coverage problems. Although tax credits provide some relief against increasing premiums, without accompanying market reforms, the cost-shifting cycle between the insured and uninsured cannot be broken. In addition, the Health Savings Accounts called for in the plan remain and untested on a wide scale basis and are a potentially dangerous policy approach. Universal coverage cannot be achieved without addressing the fundamental flaws in our health care system.

Closing

Thank you again for inviting me here today. I look forward to your questions.