

Healthy Solutions for California

March 30, 2009

All Californians deserve a health care system that delivers both world-class care and financial security. Californians deserve a system that is accessible, affordable and fair. Californians deserve a system that boosts the state's economy, attracts new businesses and strengthens existing enterprises. Californians also deserve a system that is realistic. We can only do so much as a single state; but what we *can* do, we *should* do.

The California Association of Health Underwriters (CAHU) is the state's largest association for health insurance agents, brokers and other professionals. As brokers, we occupy a unique place in the health care coverage system, working to connect Californians with their best possible coverage from health insurance providers. We see firsthand what's working and what's not. We educate consumers on their health care coverage choices, help them select the most appropriate plans for their specific needs and serve as their advocate if problems arise.

As Californians and as insurance professionals, we want a stronger, more effective health care coverage system. We applaud government leaders and others who have put forward comprehensive reform proposals – even when we disagree with their suggested solutions. This document provides a yardstick against which these proposals can be measured and offers a reform package we believe is a “healthy solution” for the health care challenges facing California.

Requirements of Reform

As the Governor and state lawmakers move forward in efforts to reform California's health care system, we offer this Healthy Solutions package of reforms and principles that we strongly believe should be used as guidelines for any and all proposed reform packages.

- We believe any reform package must ensure that all Californians have basic health care coverage.
- We believe reform must neither bankrupt families nor the state.
- We believe reform must provide the state's diverse population with equally diverse health care choices.
- We believe reform must promote ongoing and long-term innovation and experimentation that enable the state's health care system to adapt over time to the evolving needs of its citizens.
- We believe reform must address and constrain skyrocketing medical care costs.
- We believe reform must provide consumers access to meaningful information and expert advice and counseling from licensed professionals.

Judging Health Care Reform Proposals:

1. Affordability
 - Can the state afford the plan? Can the people of California afford the plan?
2. Universal Participation
 - Does it ensure that every Californian has access to basic health care coverage?
3. Cost Containment
 - Does it constrain rapidly rising medical costs?

4. Consumer Choice
 - Does it empower Californians to find and choose the health care coverage that best fits their unique needs?
5. Evolving Needs
 - Does it enable health care coverage to evolve with changes to the state's populations, their needs and expectations?

The CAHU Healthy Solutions Plan:

1. Access for All

On any given day, over 6.7 million Californians are without health insurance. Too often, policy makers and the media treat these individuals as a monolithic block cast in iron: all alike and never changing. Responsible health care reform must recognize that the uninsured are as diverse as the state's overall population. They face different circumstances and challenges and they need a health care system that addresses those differing needs. Public and private responses will be required to achieve this goal.

a. Government Programs

Many of the uninsured lack the financial resources to participate in the private marketplace. Various government programs are already in place to provide this coverage, yet too few are benefiting from these programs.

Specifically, approximately one million of the state's uninsured are eligible for existing public programs such as MediCal and Healthy Families, but fail to enroll in them. This cannot be allowed to continue. Enrolling all eligible residents into the existing programs created to serve them should be our first priority. It simply does not make sense to create new programs until the state can demonstrate it can succeed with existing programs. Most significantly, providing health care coverage to these one million individuals will reduce the state's uninsured population by 15 percent.

The state should take a business-like approach to its current outreach efforts. Existing programs should be reviewed and required to prove their effectiveness. New outreach methods should be explored and tested. Among options which should be considered are:

- Identifying and enrolling eligible participants when they access the health care system at community clinics, emergency rooms and the like
- Identifying and enrolling eligible participants when they enroll for school, whether K-12, community colleges or adult education programs
- Simplifying the enrollment process by modifying qualification requirements to tie into other programs aimed at helping low income families, such as Section 8 Housing and food stamps. Inter-agency discussions aimed at combining and simplifying enrollment processes for these programs should commence immediately
- Increasing participation by the working poor by enabling employers and health plans to create a single point of entry to private and public health care coverage programs.

Once 85 percent of those currently eligible for existing programs enroll in them, the state should consider expanding them to assist more low-income Californians. Any expansion should be phased in as the state's budget is able to handle the additional cost of outreach and enrollment. We believe expansion should be implemented in the following order:

- Children up to 300 percent of the Federal Poverty Level
- Single adults up to 100 percent of the Federal Poverty Level

b. Subsidies

Until eligibility for existing government programs is expanded, some Californians who cannot afford to participate in the private marketplace will remain ineligible for these programs. At the same time, many Californians are hard-pressed to fit the cost of health care coverage into an already tight family budget. We believe it is appropriate for the state to subsidize participation by these individuals in their employer's health plan or through the existing marketplace for individual and family coverage.

The subsidy should be set at the average cost of providing the basic benefit packages (described in section *e*, below) as determined jointly by the Department of Finance, the Department of Insurance and the Department of Managed Care. Their analysis should consider the actual premiums charged by carriers and the Major Risk Medical Insurance Board for basic coverage and reflect premium differences based on geography, age and dependent status.

Personal responsibility is an appropriate and necessary component of health care reform. Requiring individuals and families who receive subsidies to pay a portion of their premium not only encourages this responsibility, but lowers the state's costs. The subsidy should be offered on a sliding scale based on the household's percentage of the Federal Poverty Level (FPL), which is currently \$20,000 for a family of four:

<u>Household Income</u>	<u>Percent of Average Premium Subsidized</u>
101-150% of FPL	90%
151-200% of FPL	70%
201-250% of FPL	50%
251-300% of FPL	30%
301-350% of FPL	20%
351-400% of FPL	10%

Initially, subsidies should be made available to those earning less than 250 percent of the Federal Poverty Level and who are ineligible for existing state programs. As state finances permit, subsidies should be offered to those earning up to 400 percent of the Federal Poverty Level.

The price for accepting a subsidy should *not* be forfeiting choice in selecting the benefit package, delivery method (e.g., HMO versus PPO) or health care coverage provider. Subsidized individuals should not be forced into a state pool or similar arrangement nor should they be required to use state-designated entities to enroll in their health plans. They should enjoy the same choices, support and privileges enjoyed by other Californians participating in the private health insurance marketplace.

However, to reduce "crowd out" of employer-sponsored coverage, subsidized individuals should be required to accept qualified employer-sponsored coverage if it is offered to them. In addition, subsidized individuals should be able to assign their subsidy to their employer. We believe the result will be more businesses, especially small businesses, will offer health care coverage to their workers, helping to reverse the trend of the past several years. Individuals and families purchasing their own coverage should be permitted to assign the subsidy directly to the carrier of their choice in order to reduce administrative expenses.

c. Mandate to Purchase

Californians who choose to self-insure by foregoing health care coverage too often shift their costs to those who do purchase coverage. This is a hidden tax, but worse, it is a drain on the economic vitality of the state. It forces businesses offering health insurance to their workers to pay higher premiums, putting them at a competitive disadvantage against those that fail to offer such employee benefits. Additionally, individuals and families who purchase their own coverage pay more, siphoning away resources they could better spend on savings or enhancing their standard of living.

We believe all Californians should be required to purchase a basic benefits package, even those who do not qualify for state programs or subsidies. The state should use multiple means to encourage and enforce this requirement, such as:

- Make insurance premiums deductible on state income taxes (up to \$7,500 for a single filer and \$15,000 for a family)
- Rationalize California's tax system with federally supported programs such as those related to Health Savings Accounts
- Charge a penalty of up to five percent of gross income for tax filers failing to demonstrate coverage (the penalty should be prorated to reflect coverage for a partial tax year)
- Require proof of health insurance or enrollment in government-sponsored health care coverage programs as a prerequisite for obtaining state provided privileges such as a driver license

Even with these carrots and sticks, it is likely to take several years for all Californians to obtain health insurance coverage. After all, California drivers have been required to obtain automobile insurance for years, yet only 75 percent do so. We expect the measures outlined above will work to significantly increase compliance over that mark.

d. Mandate to Issue Coverage

A requirement to purchase coverage is meaningless unless applicants are assured they can obtain coverage. Yet until it can be demonstrated that the mandate to buy is working, it is unwise to require insurers to issue individual coverage to all applicants (guarantee issue is already required in the small group market). Doing so would have the perverse effect of encouraging individuals to forgo buying coverage until they are sick or suffer an accident. This, in turn, undermines the core principle of insurance, which is spreading risk among a large population. The result would be exorbitant premiums rivaling those of New York and other states that require carriers to issue policies, but do not require universal coverage.

We believe no mandate to issue individual and family coverage should be imposed until at least 90 percent of the state's population is insured. Until this threshold is reached, financing for the Major Risk Medical Insurance Program (MRMIP) should be increased so it may serve as the insurer of last resort for otherwise uninsurable individuals (please see section 2, below, for suggested financing options). MRMIP should be empowered to offer a variety of benefit packages to these individuals. Among those offerings should be the basic coverage options described in section *e*, below. Once the 90 percent threshold is achieved, carriers offering individual and family coverage should be required to accept all applicants for coverage. This would make MRMIP's program for the uninsured unnecessary, freeing up state revenue to finance expansion of other state health programs and subsidies.

Even when this near “universal coverage” is achieved, some individuals will avoid buying coverage – until *after* a medical need arises. To avoid shifting medical costs incurred by these late-enrolling individuals to those who do buy coverage, carriers should have the ability to adjust their premiums and to impose pre-existing conditions on their coverage. Any such rating bands and exclusion periods should reflect the length of time the applicant has gone without required coverage. We suggest:

<u>Previously Uninsured for:</u>	<u>Rating Band</u>	<u>Pre-Existing Exclusion Period:</u>
More than 24 months:	+/- 30% for 3 years	36 months
19-to-24 months:	+/- 25% for 3 years	24 months
13-18 months:	+/- 20% for 3 years	18 months
12 months or less:	+/- 20% for 2 years	Equal to months uninsured

e. Basic Coverage

In 1980, it was not uncommon for a health plans to limit an insured's share of annual eligible medical claims to \$1,500. Adjusted for *retail price* inflation, this out-of-pocket maximum would be approximately \$4,100 in 2007. Adjusted for *medical inflation* during this time, the out-of-pocket maximum would rise to nearly \$7,500.¹

Definitions of basic coverage should reflect this reality. Further, because of the diverse needs of California's population, there is no one benefit package that can be considered “basic” for the entire population. Consequently, we believe the requirement to maintain Basic Coverage should be satisfied by obtaining:

1. state provided health care coverage (the benefits offered through Healthy Families, MediCal and MRMIP);
2. coverage meeting the minimum requirements set by the federal government for Health Savings Account-eligible high deductible plans;
3. catastrophic coverage; or
4. core coverage,

By catastrophic and core coverage we mean:

Catastrophic Coverage:

- \$7,500 maximum annual out-of-pocket requirement
- a minimum of four doctor visits per year
- negotiated hospital expenses
- generic drugs
- preventive care
- at least \$5,000,000 in lifetime coverage

Core Coverage:

- a minimum of twelve doctor visits per year
- negotiated hospital expenses for up to \$50,000 per year
- prescription drugs with varying cost sharing arrangements for generic, brand and non-formulary drugs with no more than a \$500 deductible
- deductibles of no more than \$500 per year
- preventive care

¹ Calculations based on the inflation calculator available at www.halfhill.com/inflation.html

While carriers would be required to offer plans satisfying these criteria, they should be permitted to offer coverage that exceeds these basic requirements in order to ensure maximum consumer choice.

To help reduce the cost of coverage, the state should reconsider existing benefit mandates and require that the benefits of each are justified. Additionally, the Department of Managed Care should consider permitting HMOs to experiment with plan designs that do not meet all the definitions of the Knox-Keane Act so long as they meet the requirements of catastrophic or core benefit plans.

2. Financing Healthy Solutions

The means of raising the revenue required to expand state programs, including MRMIP, and to underwrite recommended subsidies is ultimately a political decision to be made by the Governor and Legislature. We recommend state leaders consider a variety of sources, including:

- New health plan fees based on a carrier's overall market share in the state
- Modest taxes which spreads the cost to all Californians such as a one-half percent sales tax
- New taxes on products known to increase health care costs such as:
 - tobacco products
 - alcoholic beverages
 - food products that contribute inordinately to obesity through high fat and/or sugar content and fast-food restaurant meals

Additionally, we encourage lawmakers to explore means of assuring self-insured plans participate in financing of health care coverage expansion in a fair and appropriate manner.

3. Constraining Medical Costs

Constraining skyrocketing medical costs is the most critical – and vexing – aspect of health care reform. It is the key driver in rising health insurance premiums and, consequently, in driving the cost of health care coverage beyond the reach of many Californians. There are many reasons medical care costs are skyrocketing, among them: an aging population; new medical technologies and drugs; and changing consumer expectations and values. Identifying the cost drivers, however, does not make controlling them any easier. Several initiatives have been put forward to begin addressing these challenges. Among those we support are:

- Pay for performance programs
- Electronic health records
- Electronic prescription programs
- Evidence-based medicine
- Hospital error reduction programs
- Healthy lifestyles and wellness programs

Working Together for Healthy Solutions

The CAHU's Healthy Solutions plan calls for comprehensive *responsible* reform. Responsible reform requires effective execution of early steps before starting on new initiatives. For example, before promising to expand state programs to more Californians, Healthy Solutions calls on the state to first effectively enroll the one million people eligible for existing programs but who fail to enroll in them. Similarly, Healthy Solutions avoids the creation of new state agencies and calls for lawmakers to clearly identify funding sources prior to implementing new programs or expanding existing ones.

California's health care system works for the vast majority of its citizens. Yet we can do better. Improvement will require strong leadership, a thorough debate of all proposals and, ultimately, difficult compromises and decisions. All stakeholders will feel some pain in order to achieve a universal gain. We agree with those who recognize that the status quo can no longer be everyone's second choice and we pledge full participation in the coming debate.

Ultimately we believe the time is right for a solution which provides basic health care coverage to all Californians without risking their financial health or that of the state. We believe this can be accomplished without limiting the people's ability to choose the health plan which best fits their needs and assures them continued access to the services of independent – and state-licensed – counselors and advocates. Healthy Solutions is a comprehensive approach to meeting this challenge and a yardstick for evaluating other proposals. We look forward to working with all interested parties in achieving our common goal: a world-class health care system for all Californians.



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