

# The Issues in Health Reform

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# Health Reform: Why Now

- The number of uninsured is large and growing
- Health care cost (and premium) growth is faster than growth in Gross Domestic Product, wages and prices and is unsustainable
- Health care costs adversely affect economic competitiveness
- The evidence in the value of health insurance is overwhelming
- Massachusetts has provided a centrist approach that is working

# The Uninsured

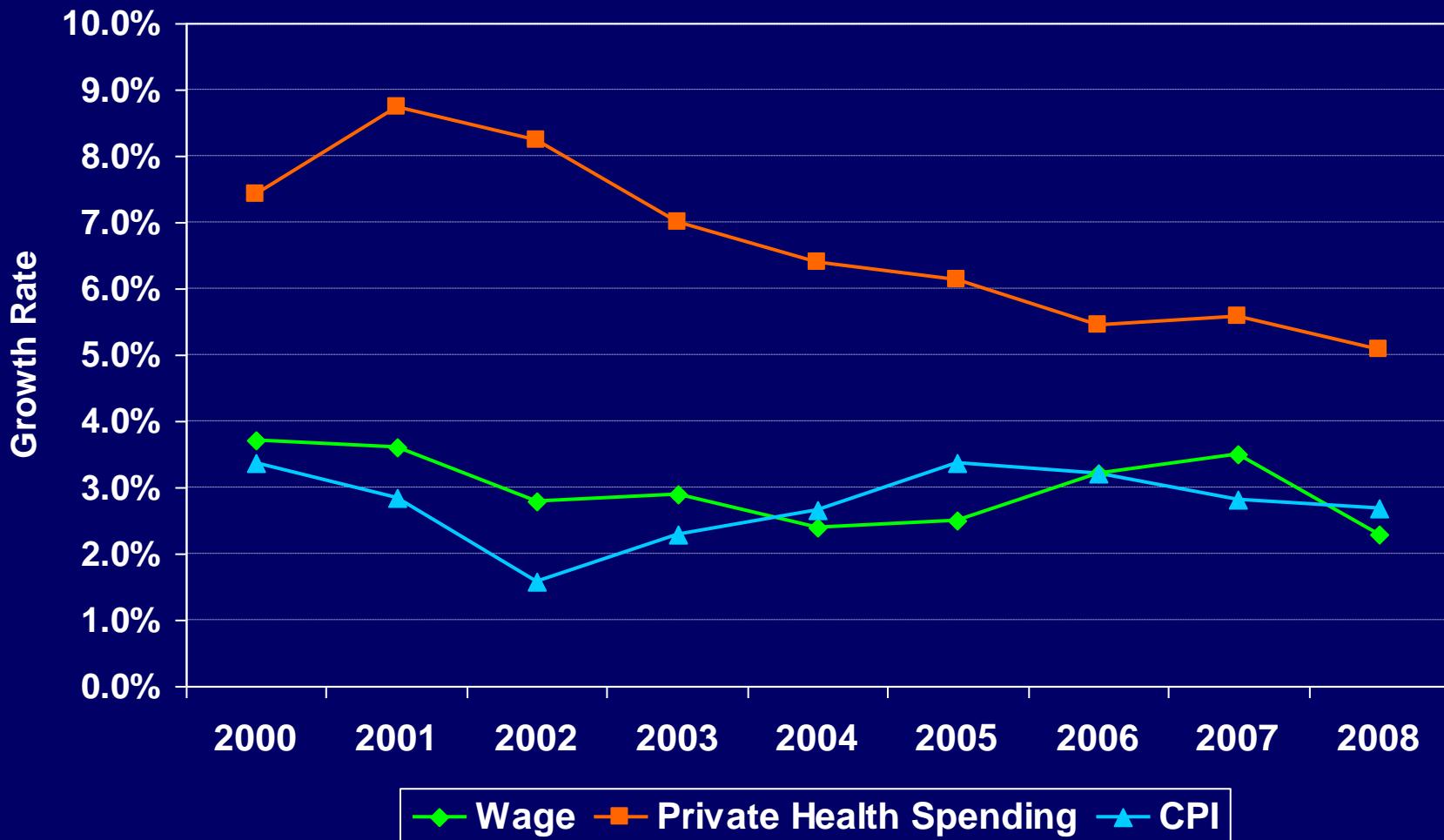
- 45 million in 2007, up from 39.6 million in 2000
- 36 million adults, 9 million children
- Highest uninsured rates among the low income, among young adults, Hispanics, non-citizens
- Most uninsured are in households with at least one full time worker
- Highest uninsured rates are in south and west

# Growth in the Uninsured

- The number of uninsured has grown from 39.6 million in 2000 to 45.0 million in 2007
- The number of uninsured has grown because of declining rates of employer coverage
- The growth in the uninsured has been greater among adults than children; would have been greater if not for Medicaid/SCHIP growth
- Declines in employer coverage have increased because health care costs and thus premiums have grown faster than wages
- The number of uninsured has also risen because of demographic and employment shifts



# Growth Rates of Healthcare Spending, Wages, and Prices



# The Implications of Doing Nothing

- Employer coverage will continue to decline because health care costs will continue to grow faster than wages; will decline further because of the recession and slow economic growth
- Declining real incomes will mean dramatic increases in the numbers eligible for Medicaid and SCHIP
- The erosion of employer coverage will exacerbate the number of eligibles who enroll in Medicaid
- State costs of financing Medicaid could increase substantially
- The uninsured would increase dramatically, by as much as a 25% increase by 2014; The costs to states, localities and providers for uncompensated care will increase commensurately

# Economic Impacts of Health Reform

1. Stimulus package contains FMAP increases
  - Will prevent reductions in coverage and increase in state taxes both of which would exacerbate the downturn
2. Expanding coverage has offsetting economic effects but are generally positive
  - Spending for coverage expansion (+)
  - Tax increases or premium contributions (-)
3. Cost containment efforts also generally positive to the extent they reduce cost growth and improve efficiency



# The Obama/Congressional Plan:

## What It Will Not Be

1. A single payer plan
2. The Clinton plan
3. A pure market driven plan



# The Obama/Congressional Plan:

## Coverage

- Medicaid/SCHIP expansion
- Income related subsidies
- Connector/exchange
- Insurance regulation
- Employer assessment
- Individual mandate for some/all

# The Obama/Congressional Plan:

## Cost Containment

- Increasing market efficiency
- Establishing a public plan
- Other initiatives
  1. Medicare Advantage Plans, Medicare Drug Pricing
  2. HIT, Prevention, Chronic Care Management, Malpractice Reform

# Building on Medicaid and SCHIP

- Is Medicaid a good base to build on with its extensive variation among states in eligibility, benefits, provider payment rates
- Should Medicaid remain separate or be integrated into rest of reformed system?
- Should Medicaid be preserved for special populations?
- Is SCHIP too small to be retained as a separate program?

# Income Related Subsidies

- Low income people would receive premium subsidies
- Premiums would vary with income to reflect judgments on affordability
- How much is affordable— who decides?
- How are out of pocket costs factored in?
- These questions are very difficult and can have serious budget consequences

# Insurance Market Regulation

- Why regulate pricing of insurance?
- Broad risk spreading benefits those with greater needs but at higher cost to healthy
- Risk segmentation, or limited risk sharing, increases costs to sick, benefits the healthy
- Insurance regulation, largely province of states, sets desired level of risk sharing
- Lots of variation across states

# Connectors/Exchanges

- Goal is to improve access for individuals and small business; organize market to increase competition over price and service
- Could be responsible for enrollment and subsidy administration
- Could negotiate with health plans over rates
- Should it be an option for all people, not just individuals and small firms?
- How strong a role in negotiating with plans, with providers?

# Employer Mandate

- Should business be required to “play or pay”?
- If so, how much should they pay as a percent of payroll; should payments vary by workers wages?
- Should there be exemptions, e.g., small firms, part time workers?
- Most businesses will provide coverage without a mandate



# Individual Mandates

- Is it fairness, or an infringement on freedom?
- Without a mandate, about half the uninsured will remain uncovered; will still have free riders, will still need to finance safety net
- What benefits, deductibles, stop loss should be mandated?
- Need to make it easy to enroll
- Best to enforce through tax system

# Cost Containment

- Need for a public plan option
- Would be offered as a choice on equal terms-- with same income related premium subsidies-- as for private plans
- A public plan choice is needed in most markets because of lack of effective competition; to provide countervailing power in response to provider consolidation

# Cost Containment – The Evidence on Other Options

- Payments to Medicare Advantage Plans
- Medicare Drug Pricing
- Accelerate Adoption of Health Information Technology
- Expand Prevention Efforts
- Invest in Chronic Care Management; Medical Homes
- Malpractice Reform

# Cost Estimates (Ballpark)

- Government: \$115 - \$125 billion
  - Net cost is lower because current payments for the uninsured could be reduced
- Employers: \$10 - \$15 billion
  - Mostly borne by employers not currently offering; others could save
- Individuals and Families: \$20 - \$25 billion
  - Low income families would spend less; middle and higher income families without coverage would spend more

SOURCE: Garrett, 2009

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# Financing

- Savings from delivery system reform
- Cap exclusion of employer contributions
- Employer assessments
- Reduce direct payments to safety net providers
- Sin taxes
- Taxes on wealthy



# Obstacles to Reform

- Providers
- Insurers
- Business
- Consumer advocates
- Free market and anti-tax advocates
- Single payer advocates