Overview of Health Reform Financing

ITUP Draft
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1. Employer payroll taxes;
   - 1% for Social Security wages up to $250,000
   - 4% for Social Security wages up to 1,000,000
   - 6% for Social Security wages up to $15,000,000
   - 6.5% for Social Security wages over $15 million

In general, these taxes increase at the rate of increases in wages.

Employer payroll tax deductions for health expenditures
- Wellness and healthy lifestyles
- Disease management
- Pharmacy benefit management
- Costs of care to the company in company clinics and elsewhere
- Costs to the employer of purchasing coverage
- Reimbursements to employees of incurred medical expenses
- Employer contributions to HSA's
- Contributions for health expenses under a collective bargaining agreement

Deductions increase at the rate of increases in employers' health expenditures.

2. Hospitals pay 4% of net patient revenues tax paid into special fund.

Fund pays for:
- Hospital rate increases to Medicare levels
- Medi-Cal managed care hospital rate increases to Medicare levels
- Public hospitals share of Medi-Cal rates
- Hospital component of Medi-Cal and CAL-CHIPP coverage expansions
- Medi-Cal managed care rate increases to be passed through to hospitals
- Maintenance of effort for state hospital spending

In general these taxes increase at the rate of the increases in hospital revenues and spending.

3. Counties pay part of the costs of coverage for uninsured adults with incomes up to 150% of FPL moving from county care into state coverage
- MIAs up to 100% of FPL moving onto Medi-Cal
- MIAs 100-150% of FPL moving into state purchasing pool (CAL-CHIPP)
- Parents and young adults of 19 and 20 with incomes of 100-150% of FPL moving onto Medi-Cal
- Counties pay 40% of state costs for their eligible and enrolled county residents
- Over-all cap of $1 billion with annual adjustments
- C-SAC and DOF develop county by county funding formula cap
- County financial protections if state cuts back program expansion of MIAs

County contributions increase at the rate of growth in counties' realignment funds – in essence the rate of growth in sales tax and vehicle license fee revenues.

4. Cigarette taxes are increased by $1.75 a pack.
These revenues decline to the extent smoking decreases. Decreased smoking also leads to improved health and lower medical expenditures on smoking related diseases.

5. Federal matching funds

- Federal matching funds are available to pay for the increases in provider rates to Medicare levels
- Federal matching funds are available to pay for uninsured parents enrolling in Medi-Cal or the pool (CAL-CHIPP)
- Federal matching funds are available to pay for emergency care to all children enrolled in Medi-Cal and for all care to citizen and legal permanent resident children enrolled in Medi-Cal and Healthy Families
- Federal matching funds are available to pay for young adults of 19 and 20 years of age enrolled in Medi-Cal
- Federal matching funds are available to pay for the county MIAs enrolling in Medi-Cal but only if the federal government approves an 1115 waiver

Federal funds increase at the rate of enrollment in the federally funded components of the program expansion. Waiver funds increase at the rate negotiated in the federal waiver.

6. Individual premium contributions

- Uninsured individuals with incomes over 400% of FPL pay the full cost of the coverage they select (subject to hardship exemptions)
- Uninsured individuals with incomes between 250 and 400% of FPL pay the full costs of coverage they select through the pool up to a cap of 5.5% of their income
- Uninsured individuals with incomes 150-250% of FPL pay premiums, but not more than 5% of their incomes for the coverage they select through the pool.
- Individual with incomes below 150% of FPL do not pay premiums.

Individual premium contributions increase with the rise of program costs, subject to the above caps.

7. California Health Care Trust Fund

- Trust fund receives the revenues from all the above funding streams, and the funds are dedicated to the health coverage program.
- The fund cannot be raided for other purposes such as paying for state budget shortfalls.

8. The trigger – semi-annual review of adequacy of funding and sustainability of programs and automatic repeal of program expansions.

- Certain program expansions and reform provisions self-destruct if the funding for the Health Care Trust Fund is found by Department of Finance to be inadequate and the legislature fails to act within 6 moths to balance the program costs.
- The provisions that self-destruct include the provider rate increases, the program expansions for adults, the individual mandate, individual market reforms and minimum basic coverage.
- Director of the Department of Finance assesses program revenues and expenditures at least semi-annually.

- Notifies the Governor, the Senate and Assembly if incoming revenues are inadequate to meet outgoing program expenditures – the financial red flag.
- The Legislature has a hard and fast time limit of 180 days to redress the financial imbalance in the Health Trust Fund. If it fails to do so in that time frame, rate increases, program expansions for adults and the individual mandate are all repealed on January 1 within 270 days of the Department of Finance waving the financial red flag – **the trigger**.