

A Look At The Big Three: Major Healthcare Reform Proposals in California¹

With health care reform high on California's agenda, several major political players have introduced proposals to expand coverage and improve the health care system. Receiving substantial spotlight are three initiatives, Governor's Schwarzenegger's Healthcare Proposal, Assembly Speaker Fabian Núñez's Fair Share Health Care and Senator Pro Tempore Don Perata's SB 48. While these plans share strong similarities, they also present unique approaches to bringing about health care reform. This summary will provide a comparison and brief analysis of the major features of these proposals.

Employer Mandate/Fee

The three initiatives preserve California's historically strong employer sponsored health care system and utilize it as a major building block to expand health coverage to California residents. By requiring employer contributions, the plans discourage crowd-out of employer-sponsored health care and help to equalize the playing field among employers. It should be noted that an employer mandate only prevents crowd-out if the "pay" side incentives are high enough. Some suggest that under the Governor's plan, the rate of employer contributions is not high enough and will lead employers to drop or reduce benefit levels.²

Núñez	Under the proposal, employers must pay for either health care or health coverage or a fee based on a fair share percentage of payroll. Employers who have fewer than two employees and a payroll of \$100,000 or less are exempt as well as newly established firms in business for less than three years.
Perata	The state will require employers that do not provide health coverage to employees and their dependents to contribute a currently undetermined percentage of payroll to a newly created Health Insurance Trust Fund. ³ The fund will facilitate funding coverage to employees without access to employer sponsored coverage and other eligible individuals. Employer contributions may be determined based on a sliding percentage scale.
Schwarzenegger	Employers not offering health coverage are to pay 4% of payroll towards the cost of employee health coverage. Employers with fewer than 10 employees are exempted.

Individual/Worker Mandate

The Governor's plan requires all Californians to obtain health insurance. In contrast, Senate President Perata and Assembly Speaker Núñez's plans focus on workers. The Governor's proposal outlines a minimum policy of coverage that may be disadvantageous to moderate income individuals. There is concern that moderate income individuals (i.e. above 250% of FPL) will purchase the least expensive health plans in compliance with the mandate due to financial constraints. These plans will likely have high deductibles and high out-of-pocket costs, which could lead to underutilization and poorer health outcomes. Senator Perata's plan and Speaker Núñez's proposal defer the decision about what constitutes minimum coverage to the state's Managed Risk Medical Insurance Board (MRMIB).

<p>Núñez</p>	<p>Employees with access to employer-sponsored health coverage are required to accept it for themselves and their dependents, provided that their contributions will not be greater than a “reasonable percentage of their income.” They are required to contribute a fair share of the costs, which includes premiums and out-of-pocket expenses. Employees without access to employer sponsored health coverage will pay a certain percentage of their income to obtain coverage through a newly established state purchasing pool.</p>
<p>Perata</p>	<p>Employees, including the self-employed, must have a minimum level of health coverage for themselves and their dependents. They must provide proof of health coverage through personal income taxes. Noncompliant employees will not be permitted to claim personal exemption tax credits on their income tax for the tax year they fail to meet these requirements. Employers that opt to pay the fee in lieu of providing health coverage will collect an unspecified employee contribution from each employee that will be a certain percentage of payroll. These contributions will be deposited into the newly created Health Insurance Trust Fund which facilitates health coverage for employees and other eligible individuals.</p>
<p>Schwarzenegger</p>	<p>All Californians must maintain a minimum policy of coverage, which includes coverage that will protect families against catastrophic costs, a \$5,000 deductible and a maximum out-of-pocket limit of \$7,500 per individual and \$10,000 per family. The state will assist lower income individuals in obtaining coverage through a combination of expansions in public coverage and financial help through the newly created, state-administered purchasing pool. The state will enforce the individual mandate through approaches such as wage withholding, payment process with the Employment Development Department and through the state income tax.</p>

Expanding Public Programs

While all three plans extend coverage to children up to 300%, they differ in residency requirements. Exclusion of undocumented children may be detrimental as child health is critical to success in schools and a strong future predictor of their health status as adults. Family-based coverage is a component of the Núñez and Perata proposals, permitting eligible parents and children to be enrolled in Medi-Cal or the Healthy Families Program (HFP), increasing the probability that participating children will receive recommended medical care. The plans differ on their approach towards coverage for low income parents and adults.

<p>Núñez</p>	<p>The plan will extend state programs (i.e. Medi-Cal and the HFP) to individuals with incomes up to 300% FPL. All children in households with incomes up to 300% of the FPL, regardless of residency status, will be covered by a public program unless they are insured through employer sponsored health coverage. Employees and dependents covered under employer sponsored health coverage but eligible for public coverage will receive supplemental coverage to “ensure Medi-Cal/HFP benefit levels.” The state will also expand public coverage to parents in low income households and in time to low-income adults with no children.</p>
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<p>Perata</p>	<p>The proposal will expand coverage to include parents and children up to 300% of the FPL. Households with incomes from 100% of the FPL to 300% of the FPL would be enrolled in the HFP while eligible working parents below 100% of FPL would be covered through Medi-Cal.⁴</p>
<p>Schwarzenegger</p>	<p>Uninsured children below 300% of the FPL will be eligible for health coverage through public programs. Children with household incomes below 100% of the FPL will enroll in Medi-Cal and children with household incomes between 101% and 300% of the FPL will enroll in the HFP.</p> <p>Uninsured citizens and legal resident adults with incomes below 100% of the FPL will be eligible for Medi-Cal at no cost. Uninsured citizens and legal resident adults will be eligible for state coverage through MRMIB from 101% of FPL up to 250% of FPL</p> <p>Uninsured individuals without a green card and below 250% of the FPL will receive health care through county governments. Under this arrangement, county and University of California hospitals will provide medical care where applicable. Funding is facilitated by the \$1 billion that counties receive for care to the uninsured and \$1 billion County and UC hospitals receive from federal Disproportionate Share Hospital (DSH) funds and “safety net” funds. The state will also continue Emergency Medi-Cal.</p> <p>While expanding public coverage, the Governor’s proposal also consolidates some state programs, Access for Infants and Mother’s (AIM), Managed Risk Medical Insurance Program and Medi-Cal Share-of-Costs as these separate programs will no longer be needed.</p>

State Purchasing Pools

All three proposals utilize state-sponsored purchasing pools to consolidate the purchasing power of participating individuals and to enhance their ability to negotiate for more advantageous rates, thereby increasing the affordability and accessibility of health insurance. With regard to the Governor’s proposal, some have expressed concern that the premium contribution rate of 3-6% of individual/family income within the new state purchasing pool may be too burdensome for lower income families. In the other two plans, the premium contribution rates within the state purchasing pools are currently undefined.

<p>Núñez</p>	<p>A newly established California Cooperative Health Insurance Purchasing Pool (Cal-CHIPP), administered by MRMIB, will use its purchasing power to buy health coverage for employees of employers that opt to pay in lieu of providing employer-sponsored health coverage. Núñez’s proposal also allows individuals and employers to purchase health insurance through Cal-CHIPP. Cal-CHIPP will offer three uniform benefit designs, which all insurers will be required to offer.</p> <p>The proposal also seeks to restructure the state’s high risk pool for medically uninsurable persons, Major Risk Medical Insurance Program (MRMIP), to include all individuals unable to purchase health coverage due to a pre-existing condition. A surcharge on health insurance premiums will finance MRMIP’s expansion.</p>
<p>Perata</p>	<p>The bill requires MRMIB to establish the Health Insurance “Connector.” The Connector is a state purchasing pool that would negotiate the most advantageous rates and offer participating employees a choice of plans. Participating health plans would be required to cap their administrative costs and profits and use evidence-based medicine practices to control rising health care costs. Plans would compete on the basis of price and quality. The Connector is also authorized to buy coverage through the Medi-Cal Managed Care program.</p>
<p>Schwarzenegger</p>	<p>The Governor’s proposals calls for the creation of a state purchasing pool that will be administered by MRMIB. Individuals are eligible to purchase coverage through this system will be uninsured legal resident adults with incomes between 100-250% of FPL. Premiums will be based on a sliding scale. Individual/family contributions will range from 3% to 6% of gross income. The plan also permits low-income persons already contributing towards cost of their employer-sponsored or individual coverage to obtain financial assistance through this state purchasing pool.</p>

Preventative Care and Chronic Disease Management

Without proper treatment and regular care, individuals with chronic diseases may require acute and costly care, often accompanied by poorer health outcomes. Through preventative care and chronic disease management, these plans hope to achieve better patient quality of life and reduce health care costs.

<p>Núñez</p>	<p>State health coverage programs (i.e Cal-PERS, Medi-Cal, HFP, and Cal-CHIPP) will institute MRMIB-developed best practices in care and treatment of persons with chronic diseases. All of the state-developed uniform benefit designs must offer primary and preventive care with minimal patient cost sharing and include medications critical to cost-effectively manage chronic conditions. Additionally, the state will adopt and promote programs that encourage “safe workplaces, healthy employer practices and individual efforts to improve health.”</p>
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Perata	Health plans offered through the Health Insurance “Connector” will be required to institute evidence-based practices that will control growing health care costs, including: preventative care, case management for chronic diseases, and providing incentives for healthy behavior.
Schwarzenegger	<p>Governor Schwarzenegger’s plan calls for the creation of the “Healthy Actions Incentives/Rewards” programs in the public and private sector to encourage individuals to adopt healthy practices and behaviors by providing rewards and incentives for participation in activities that have been proven to reduce the risk of chronic medical conditions and to be cost effective.</p> <p>The proposal will institute a statewide initiative to implement interventions proven to reduce the number of individuals with diabetes and promote self-management among those with diabetes. It will also seek to decrease tobacco use through increasing access to cessation services and reducing obesity through a media campaign, community based activities and employee wellness programs.</p>

Insurance Reforms

Consumers in California’s individual health insurance and small group market face barriers to obtaining health coverage due in part to medical underwriting, which commonly results in exclusion from coverage and/or price discrimination on the basis of health history, occupation, age, and lifestyle. As a result, high-risk persons are likely to encounter steeper premiums and exclusion, as insurers have the prerogative to deny health coverage. The proposals introduce insurance reforms to increase equity of access and affordability of health coverage.

Nunez	Insurers will use a standard form in determining eligibility for coverage. They must comply with a MRMIB developed list that outlines which health conditions insurers may use to refuse coverage.
Perata	Plans offered through the Connector would abide by guaranteed issue and community rating requirements.
Schwarzenegger	Mandates that insurers must guarantee coverage and proposes limits on price discrimination based on age and health status. Health plans will be required to spend 85% of every dollar in premium and health spending on patient care, limiting the amount that plans may spend on administrative costs and profits.

Tax Incentives

Tax incentives in the Governor and Speaker Núñez’s plans encourage employers and employees to invest in health coverage. Schwarzenegger’s plan will promote the use of Health Savings Accounts (HSAs); HSAs are most

beneficial for higher income individuals/families as premiums and out-of-pocket costs for HSA-qualified health plans would require a low-income family to expend a significant portion of its budget.⁵ Similarly, the tax deductibility of Section 125 plans, a component of both the Governor and Speaker Nunez’s plans, is more beneficial for individuals in higher income tax brackets.

Núñez	This proposal requires employers to establish a Section 125 plan. In Section 125 plans premium payments made by employees (including part-time and contract employees) are tax-free and employers save on FICA contributions.
Perata	None
Schwarzenegger	The proposal permits individuals to make pre-tax contributions to individual care health insurance Health Savings Accounts. It also requires employers to institute a Section 125 plan

Medi-Cal Rates and Providers

Only the Governor’s proposal will increase reimbursement rates to medical providers, raising rates by \$4 billion to increase provider participation and minimize the “hidden tax” associated with low Medi-Cal reimbursement. The Governor’s proposal also places other requirements on providers, mandating that hospitals spend 85% of every dollar i on patient care. While hospitals and physicians will benefit from Medi-Cal rate increases and coverage for the uninsured, hospitals will contribute 4% of gross revenues and physicians will contribute 2% of gross revenues to finance the Governor’s universal healthcare initiative.

Pay for Performance

Through this incentive oriented component, Governor Schwarzenegger and Speaker Núñez seek to change the way that providers and plans deliver care. By rewarding performance, the proposals encourage providers and plans to become more efficient deliverers of quality care, leading to cost savings and better patient outcomes.

Núñez	The state will initiate a pay for performance model for health coverage programs that receive state dollars.
Perata	None
Schwarzenegger	Future Medi-Cal provider and plan rate increases will be tied to performance improvement measures (i.e. measuring and reporting of quality information, adopting health information technology and improvements in health care efficiency and safety).

Cost and Financing

<p>Núñez</p>	<p>The California HealthCare Foundation is assisting Speaker Nunez in determining the costs and savings. The proposal will be funded in part by employer, employee and individual contributions and increases in federal funding in Medicaid and HFP to extend public programs to cover a greater proportion of the state’s population.</p>
<p>Perata</p>	<p>The current best estimate for the total cost for providing coverage is between \$5 billion and \$7 billion.⁶ A significant proportion of the plan will be financed through employer and employee contributions and amendments in state Medicaid/SCHIP plans and waivers to increase federal funding to expand public programs.</p>
<p>Schwarzenegger</p>	<p>The proposal will cost an estimated \$12 billion. It will be funded through employer, employee, individual, physician, and hospital contributions, redirected county and DSH funds, savings through the consolidation of certain state programs (i.e. AIM, MRMIP, and Medi-Cal Share-of-Cost), and additional federal reimbursements from expanding Medi-Cal and HFP and for Medi-Cal rate increases.</p>

Conclusion

These proposals present thoughtful solutions to inefficiencies in the state’s current health care system. They largely rely on a combination of building on employer-sponsored health coverage, decreasing barriers to private insurance while expanding public programs for low-income populations. They also utilize various strategies to influence consumer, provider, and plan behavior to improve health outcomes and realize cost savings. Major variations across proposals include the scope of and eligibility for coverage (i.e. residency status and work status).

As the details of these plans are being worked out and as discussion continues, ITUP’s hopes that these proposals will generate meaningful change that will increase access and affordability for residents of California.

¹ Unless otherwise noted, information was obtained from: "Governor's Health Care Proposal," Office of the Governor. http://gov.ca.gov/pdf/press/Governors_HC_Proposal.pdf (accessed January 30, 2007). "SB 48," Senator Don Perata. http://dist09.casen.govoffice.com/index.asp?Type=B_BASIC&SEC={7085326C-6A7C-4911-AA76-481BAE8ED741} (accessed January 30, 2007). "Fair Share Health Care, A Vision for a Healthier California," Assembly Speaker Fabien Nunez.

² Jordan Rau, "Governor Offers Bold Prescription," Los Angeles Times. <http://www.latimes.com/news/local/la-me-health9jan09,0,1913222.story> (accessed January 31, 2007).

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⁴ "Key Elements," Senator Don Perata. http://dist09.casen.govoffice.com/index.asp?Type=B_BASIC&SEC={177DB223-2FBE-4A37-8213-23B1F433218E} (accessed January 31, 2007).

⁵ Catherine Hoffman and Jennifer Tolbert, "Health Savings Accounts and High Deductible Health Plans: Are They An Option for Low-Income Families?", Kaiser Family Foundation. <http://www.kff.org/uninsured/upload/7568.pdf> (accessed January 29, 2007).

⁶ "Q & A," Senator Don Perata. http://dist09.casen.govoffice.com/index.asp?Type=B_BASIC&SEC={177DB223-2FBE-4A37-8213-23B1F433218E} (accessed January 30, 2007).