Help Is on the Way

12 Reasons to Embrace Health Reform

Families USA • May 2010

The newly passed health reform legislation will have a profound effect on the health and economic well-being of American families, businesses, and the economy. Through health reform, coverage will be made more affordable for businesses and families, millions of the uninsured will gain coverage, and rapidly rising health care costs will be brought under control. These measures will improve the lives of millions of Americans and give us all the peace of mind that comes with knowing that we have health coverage no matter what. Below are some of the key improvements that these reforms will make.

Health reform will:

1. Prohibit denials of coverage based on pre-existing conditions and guarantee that every American has access to high-quality health coverage, regardless of age, gender, or health status.
2. Create a new, regulated marketplace to promote competition among insurers and to give consumers the opportunity to purchase the best plan at the best price.
3. Ensure that all Americans have access to stable, high-quality health coverage, no matter where they work.
4. Limit out-of-pocket costs so that all Americans have real health security and peace of mind.
5. Provide sliding-scale subsidies to make health insurance premiums affordable for hard-working, middle-class families.
6. Hold insurance companies accountable for how premium dollars are spent, requiring that a majority of the money they collect be spent on patient care.
7. Clamp down on insurance company abuses so consumers no longer lose their coverage when they need it most.
8. Extend much-needed relief to small businesses by offering tax credits so they can afford coverage for their workers.
9. Help young adults by requiring that insurers allow all dependents to remain on their parents' plan to age 26.
10. Expand Medicaid to millions of low-income working families who currently fall through the cracks.
11. Improve Medicare by helping seniors and people with disabilities afford their drugs and preventive care, and by making Medicare fiscally secure.
12. Invest in preventive care, take steps to improve the quality of health care overall, and curb unnecessary health care spending.

1 Prohibit denials of coverage based on pre-existing conditions and guarantee that every American has access to high-quality health coverage, regardless of age, gender, or health status.

What health reform will do:

- Insurance companies will no longer be able to turn down Americans for coverage based on their pre-existing conditions, health status, gender, or age.
- In addition, insurers will not be allowed to charge higher premiums because of pre-existing conditions, health status, or gender. New limits will be set on how much premiums can vary by age group.

Why this change is needed:

- In all but five states, most insurance companies in the individual market are free to deny coverage to applicants because of health problems, health risks, or age.[1] And even when they offer coverage, the premiums they charge are often exorbitant.

2 Create a new, regulated marketplace to promote competition among insurers and to give consumers the opportunity to purchase the best plan at the best price.

What health reform will do:

- Under health reform, every American will have access to a fair marketplace, called an exchange, and a broad range of choices in health coverage like Congress has. Small businesses, the uninsured, and other Americans will purchase their coverage through an exchange, just as Congress does.
- All insurers will be required to present health plan information in a clear, user-friendly format that allows consumers to understand plan terms and compare benefits and services across plans. This will promote competition among insurers and help consumers shop for the plan that provides the best coverage at the best price.

Why this change is needed:

- Insurance markets are currently regulated by a hodgepodge of state and federal rules. In addition, there is little standardization of the information that insurers must provide. This makes it difficult for consumers to understand exactly what is and is not covered and to compare other aspects of insurance plans.
- Many insurance markets across the country are what is termed “highly concentrated,” which has resulted in near-monopoly power among insurance companies.For example, in 2009, 99 percent of commercial insurance markets were “highly concentrated.”[2]

3 Ensure that all Americans have access to stable, high-quality health coverage, no matter where they work.

What health reform will do:

- Americans will no longer have to worry about whether losing a job or starting their own small business will leave them without health coverage. Those who do not have access to coverage through the workplace will be able to purchase coverage through the exchanges.
- Assistance will be available to help moderate-income families with the cost of premiums. This will be especially helpful for many who lose their jobs.

Why this change is needed:

- Many Americans make employment decisions based on health benefits. They may decide to stay in a job just to keep their health coverage, or they may decide not to start their own small business for fear that they won't be able to purchase coverage on their own.[3] As a result, our labor market functions inefficiently.
- In our current system, where nearly two-thirds (61.9 percent) of non-elderly Americans receive their health coverage through the workplace,[4] the loss of a job often results in the loss of health coverage.

4 Limit out-of-pocket costs so that all Americans have real health security and peace of mind.

What health reform will do:

- The amount that anyone will have to pay out of pocket for health expenses each year will be capped.
- Lower- and moderate-income people will receive extra assistance with out-of-pocket costs.

Why this change is needed:

- Even when people have coverage, the high cost of health care can—and does—send millions of people into debt each year. In 2009, an estimated 14.3 million Americans *with insurance* were in families that spent more than 25 percent of their pre-tax income on health expenses.[5]
- Nearly two-thirds (62.1 percent) of bankruptcies in 2007 were due, at least in part, to medical causes.[6]

5 Provide sliding-scale subsidies to make health insurance premiums affordable for hard-working, middle-class families.

What health reform will do:

- Provide subsidies on a sliding scale so hard-working, middle-class families can afford to buy health insurance.

Why this change is needed:

- Insurance premiums are rising quickly, making health coverage unaffordable for many families. For example, between 1999 and 2009, the average annual premium for job-based family coverage more than doubled, rising from $5,791 to $13,375.[7]
- Today, middle-class, working families who are not eligible for Medicaid or Medicare do not receive any federal assistance to help them purchase insurance. As a result, millions go without the coverage and care that they need.

6 Hold insurance companies accountable for how premium dollars are spent, requiring that a majority of the money they collect be spent on patient care

What health reform will do:

- Health reform will require insurance companies to spend at least a certain share of their premium dollars (80 or 85 percent, depending on the market) on medical care. If insurers fail to do this, they will be required to provide refunds to consumers.

Why this change is needed:

- In the majority of states, there are no protections to ensure that consumers' premiums will be used for medical services rather than being pocketed by insurance companies for profits, advertising, and other overhead costs.
- Without adequate consumer protections, insurance companies sometimes spend only 60 cents of every dollar—or even less—on actual health care.[8] As a result, hundreds of billions of dollars are spent each year on insurance company overhead.[9]

7 Clamp down on insurance company abuses so consumers no longer lose their coverage when they need it most.

What health reform will do:

- Insurance companies will be prohibited from unfairly revoking or rescinding insurance coverage. Rescissions will be permitted *only* when there is clear and convincing evidence that an enrollee committed fraud, not when insurers simply want to avoid paying claims for enrollees who get sick.

Why this change is needed:

- Our current system lacks adequate protections against insurers revoking an individual's health insurance policy or suddenly eliminating coverage for crucial health services long after the person has enrolled.

8 Extend much-needed relief to small businesses by offering tax credits so they can afford coverage for their workers.

What health reform will do:

- Tax credits will help small businesses with the high cost of premiums by covering up to 50 percent of the cost of health coverage for their employees.
- Small businesses will no longer have to seek coverage on their own. Instead, they will be able to purchase coverage through the exchanges and will benefit from the enhanced buying power they will gain from being able to purchase in groups.

Why this change is needed:

- Small businesses pay higher premiums than their larger counterparts: On average, small businesses pay 18 percent more for the same policy.[10] As a result, many cannot afford to offer coverage. For example, among firms with fewer than 10 workers, less than half are able to offer health coverage.[11]
- Due in large part to the high cost of health coverage, more than half of the uninsured—26 million Americans—are small business owners, employees, or their dependents.[12]

9 Help young adults by requiring that insurers allow all dependents to remain on their parents' plan to age 26.

What health reform will do:

- All young adults will be able to remain on their parents' or guardians' health insurance plan to age 26.

Why this change is needed:

- Young adults face life transitions that often leave them without health coverage. For example, job-based insurance policies may require that young adults be in school full-time to remain on their parents' coverage. In addition, many policies limit eligibility for coverage to age 21 or 23.
- When the job market is depressed, recent graduates are often unable to find a job that offers health insurance.
- As a result of these circumstances, young adults make up one of the largest segments of the uninsured. In fact, 45 percent of young adults between the ages of 19 and 29 went without health insurance at some point during 2009.[13]

10 Expand Medicaid to millions of low-income working families who currently fall through the cracks.

What health reform will do:

- The national floor for Medicaid eligibility will be set at 133 percent of the federal poverty level ($24,352 for a family of three in 2010), expanding coverage to millions of Americans.

Why this change is needed:

- Contrary to popular perception, the Medicaid program does not provide coverage for all low-income people. In fact, in 43 states, adults without dependent children cannot enroll in Medicaid, even if they are penniless.[14]
- Only 16 states and the District of Columbia cover parents with incomes up to the poverty level. Nationally, the median eligibility level for parents is a mere 64 percent of poverty ($12,268 for a family of three in 2010).[15]
- Medicaid is designed to meet the health care needs of people with very low incomes. It has comprehensive benefits, strict limits on out-of-pocket costs, and strong consumer protections to make sure that people who can't otherwise afford health care get the care that they need.

11 Improve Medicare by helping seniors and people with disabilities afford their drugs and preventive care, and by making Medicare fiscally secure.

What health reform will do:

- The coverage gap or "doughnut hole" in the Medicare Part D prescription drug benefit will gradually be eliminated. Anyone who falls into the doughnut hole will receive a $250 rebate in 2010. Starting in 2011, they will receive substantial discounts on drugs while in the doughnut hole. These discounts will increase each year until the doughnut hole is completely eliminated by 2020.
- Health reform will eliminate all cost-sharing for preventive care in Medicare.
- Health reform will extend the Medicare trust fund by nearly a decade without any reductions in guaranteed benefits.

Why this change is needed:

- The gap in Medicare Part D prescription drug coverage, the so-called "doughnut hole," is currently $3,610 and is projected to grow to almost $6,000 by 2018.[16] As a result, seniors and people with disabilities with significant drug costs cannot afford the medications that they need.

- Many preventive services in Medicare are subject to copayments of as much as 20 percent.[17] Substantial cost-sharing discourages people from obtaining needed preventive care.
- Medicare's trust fund is projected to have insufficient funds to pay full benefits by as early as 2017.[18] By making necessary changes now, health reform will prevent the need to make drastic benefit cuts in the future.

12 Implement long overdue steps to invest in preventive care, take steps to improve the quality of health care overall, and curb unnecessary health care spending.

What health reform will do:

- A wide array of approaches will be tested that are designed to bring down costs, prevent errors, and improve the way that care is delivered.
- Doctors and patients will have better access to the information that they need to work together and decide on the most appropriate course of care.
- To improve the quality of care, doctors and hospitals will be rewarded for providing better-quality care and demonstrating improved health.

Why this change is needed:

- Approximately 100,000 Americans die each year from medical errors that could have been prevented.[19]
- An estimated $700 billion dollars is spent annually on care that does not improve health.[20]

Endnotes

[1] Ella Hushagen and Cheryl Fish-Parcham, *Failing Grades: State Consumer Protections in the Individual Insurance Market* (Washington: Families USA, June 2008).

[2] American Medical Association, *Competition in Health Insurance: A Comprehensive Study of U.S. Markets, 2009 Update* (Chicago: AMA, 2010).

[3] "Held Hostage by Health Care: Fear of Losing Coverage Keeps People at Jobs Where They're Not Their Most Productive," *Business Week*, January 29, 2007; Brigitte C. Madrian, "Employment-Based Health Insurance and Job Mobility: Is There Evidence of Job-Lock?" *The Quarterly Journal of Economics* 109, no. 1 (February 1994): 27-54.

[4] U.S. Census Bureau, *Current Population Survey*, data on source of coverage for non-elderly Americans downloaded from the CPS Table Creator on February 22, 2010.

[5] Kim Bailey with Laura Parisi, *Too Great a Burden: Americans Face Rising Health Care Costs* (Washington: Families USA, April 2009).

[6] David Himmelstein, Deborah Thorne, Elizabeth Warren, and Steffie Woolhandler, "Medical Bankruptcy in the United States, 2007: Results of a National Study," *The American Journal of Medicine* 122, no. 8 (August 2009): 741-746.

[7] Kaiser Family Foundation and the Health Research and Educational Trust, *Employer Health Benefits 2009 Annual Survey* (Washington: Kaiser Family Foundation, September 2009).

[8] Health insurance regulators in states with prior approval report that medical loss ratios in the individual market are typically low, around 60 percent, unless the state requires a minimum loss ratio. Based on Families USA interviews with health insurance regulators in 19 states in December 2007 and January 2008.

[9] Steffie Woolhandler, Terry Campbell, and David Himmelstein, "Costs of Health Care Administration in the United States and Canada," *New England Journal of Medicine* 348, no. 8, August 2003.

[10] Jon Gabel, Roland McDevitt, Laura Gandolfo, Jeremy Pickreign, Samantha Hawkins, and Cheryl Fahlman, "Generosity and Adjusted Premiums in Job-Based Insurance: Hawaii Is Up, Wyoming Is Down," *Health Affairs* 25, no. 3 (May/June 2006): 832-843.

[11] Agency for Healthcare Research and Quality, *Medical Expenditure Panel Survey, Table 1.A.2, Percent of Private Sector Establishments that Offer Health Insurance by Firm Size and Selected Characteristics: United States* (Washington: AHRQ, 2008), available online at http://www.meps.ahrq.gov/mepsweb/data_stats/summ_tables/insr/national/series_1/2008/tia2.pdf.

[12] Paul Fronstin, *Sources of Health Insurance and Characteristics of the Uninsured: Analysis of the March 2009 CPS Survey* (Washington: Employee Benefit Research Institute, September 2008).

[13] Jennifer L. Nicholson and Sara R. Collins, Y*oung, Uninsured, and Seeking Change: Health Coverage of Young Adults and Their Views on Health Reform, Findings from the Commonwealth Fund Survey of Young Adults, 2009* (New York: The Commonwealth Fund, December 2009).

[14] A list of states that provide Medicaid coverage to adults without dependent children and to those who do not qualify for disability-related coverage is on file with Families USA.

[15] Data are on file with Families USA.

[16] Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, *2009 Annual Report* (Washington: Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, May 12, 2009), available online at http://www.cms.hhs.gov/ReportsTrustFunds/. This is the annual report of the Medicare Board of Trustees.

[17] Kaiser Family Foundation, *Medicare: A Primer* (Washington: Kaiser Family Foundation, 2010).

[18] Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, op. cit.

[19] Institute of Medicine, *To Err Is Human: Building a Safer Health System* (Washington: Institute of Medicine, November 1999).

[20] Peter R. Orszag, *Opportunities to Increase Efficiency in Health Care: Statement at the Health Reform Summit of the Committee on Finance, United States Senate* (Washington: Congressional Budget Office, June 16, 2008).

1201 New York Avenue NW, Suite 1100 ■ Washington, DC 20005
Phone: 202-628-3030 ■ www.familiesusa.org