# Tackling the Tough Topics:
## The public plan option, employer pay or play, and paying for health care reform

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Chair: Senator Linda Berglin

## Presentation outline

- Public plan
  - Models
  - Rationale
- Employer pay or play
  - Rationale
  - Current proposals
  - Policy interactions
  - Implications for employer-sponsored insurance , labor markets, and State governments
- Paying for health care reform
  - Proposed financing strategies
  - Reform and the Federal budget
  - Do current proposals support the economic case for reform?

## What is a public plan option?

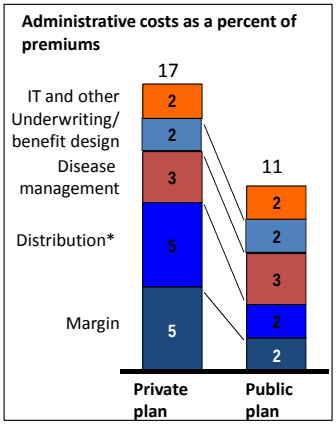
- A governmental organization bears financial risk and administers or contracts with a private third party to administer the health plan.
- No consensus about specific model
  - Veterans Administration
  - Medicare
  - FEHBP

## Creating a Public Plan Option

- Rationale
  - Increase consumer choice
    - Perceived as safe and reliable
  - Drive down costs
    - Administrative costs
    - Provider unit costs
- Combat increasing concentration of market power by insurers and specialty physician groups in local geographic areas
  - Highly concentrated insurer markets
    - AMA study: 76% of metropolitan statistical areas had at least 1 insurer with more than 50% PPO market share
    - Entry barriers
      - Provider network development
  - Concentrated specialty provider markets in many local metro areas
    - Extensive consolidation as part of the "managed care backlash" in the late 1990s.

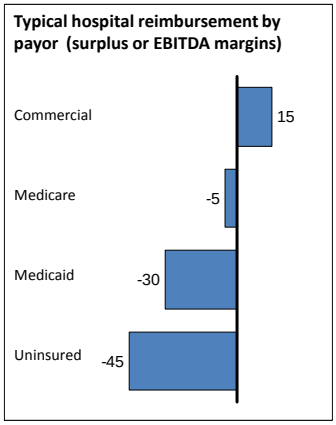
## How a public plan could drive down costs

**1 . Lower administrative costs**




- Driven by no margin requirement; less dependence on brokers, and scale from CMS
- Private plan costs vary by insurer and group size

**2 . Lower provider unit costs**




- Driven by the ability of the public plan to access Medicare's provider rates

* Assumes current large group and CMS admin costs; distribution costs may be lower than current practice for private plans through the Exchanges

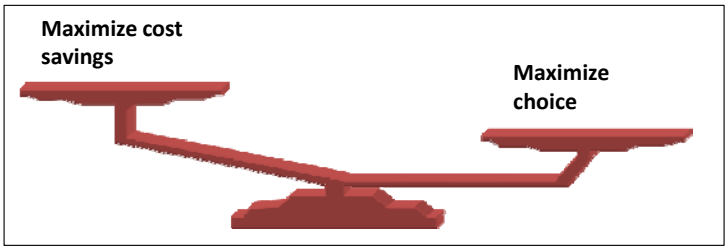
## Spectrum of "public plan" options

*More government* ← → *Less government*

| | House Tri-Committee Version | Community Health Insurance Option (Senate HELP) | Consumer Owned and Oriented Plans (Sen. Finance) |
|---|---|---|---|
| *Who bears the risk?* | Government | Government | Consumer-governed non-profit corporation |
| *Who administers the plan?* | Department of Health and Human Services | Non-profit entity determined based on a competitive bidding process | Private entity with federal seed money for grants and loans |
| *How are provider payments determined?* | Medicare rates + multiplier; Negotiated by HHS | Secretary of HHS will negotiate; not to exceed average private plan rates | Not known |
| *Who is eligible to enroll?* | Individuals within Exchange | Individuals within Exchange | Not known |
| *Premiums must cover costs?* | Yes | Yes | Yes |

## Major trade-offs

The more effective the public plan is at driving down costs, the more likely it will drive out private plans lowering choice over the long term.




- Difficult to achieve cost savings and choice simultaneously.
- Politics suggests movement toward maximizing choice.

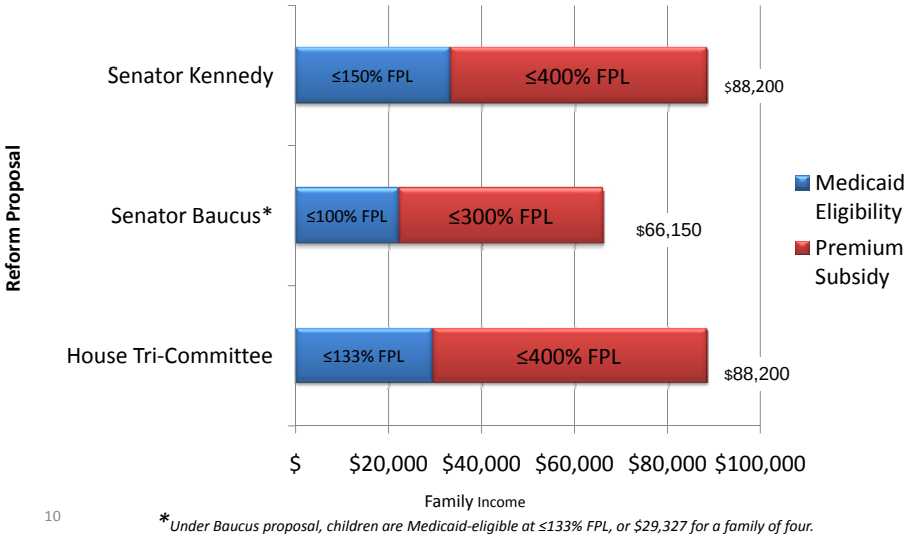
# Employer Pay or Play

## Employer-Sponsored Insurance (ESI)

- In the U.S., 155 million non-elderly (59.8%) covered by ESI in 2006
- Firm size is the single most important determinant of offering coverage
  - 43% of small firms offer, while 96% of firms with 50+ employees do
- Within firms that offer health insurance, only 31% of part-time workers are eligible to enroll.
- Low-wage workers are less likely either to have an offer of ESI or to take it up

## Coverage Expansion Under Reform Proposals

*(Family of Four FPL = $22,050 in 2009)*




10

*Under Baucus proposal, children are Medicaid-eligible at ≤133% FPL, or $29,327 for a family of four.

## Employer pay or play

- Provision that requires employers of certain size to offer health insurance to its workers or pay to help finance subsidies for those without access to affordable coverage (Kaiser Family Foundation, 2009)
- Rationale
  - Prevent erosion of employer-sponsored insurance
  - Raise revenue

## Current "pay or play" provisions

- House Tri-Committee
  - 8% payroll tax for workers who obtain coverage within Exchange; scaled for part-time workers
  - Essential benefits package requirement
  - Minimum employer contribution 72.5% single coverage and 65% for family coverage.
  - Small employer and hardship exemption
- Senate HELP Committee
  - Penalty of $750 per uninsured full-time employee ($375 for part-time)
  - Minimum employer contribution of 60%
  - First 25 workers exempt
- Senate Finance Committee
  - Minimum employer contribution of 50%
  - No decision regarding the design of an employer penalty

## How do reform provisions, including the subsidy schedule and pay or play, influence workers' and firms' decisions?

- Worker perspective
  - Conditional on having an offer, they weigh alternative compensation options, including take-home wages and health insurance
    - Take-up of ESI coverage
      - Out-of-pocket (OOP) premium
      - Some evidence that low-wage workers are more price-sensitive.
    - Possible scenario: Employee turns down coverage and goes to Exchange
      - » Subsidies and income-level
      - » Shopping costs
      - » Value of choice and portability

## How do policies influence workers' and firms' decisions?

- Firm perspective
  - Objective is to minimize total compensation costs
    - HR manager: ***"Given incentives created by the pay-or-play and Exchange subsidies, can the firm lower its compensation costs and make workers better off by dropping ESI and paying the penalty?"***
  - Incentive to not offer ESI increases as
    - Generosity of the individual subsidies increases
    - Pay or play tax decreases
  - Should expect some firms to drop ESI
    - Empirical research is lacking to quantify the size of the effect

## Implications

- Labor market effects
  - Modest reductions in employment, particularly among low-wage firms
  - Changes in the structure of jobs (shifting toward full-time work or part-time hours at penalty threshold)
  - Negative incentives around work hours for those eligible for Exchange-based subsidies
  - More individuals seeking early retirement
  - Reduce job lock and improve workers' productivity, including entrepreneurship and self-employment.

## Potential implications for States

- Job loss could lead to increased demand for unemployment insurance and other state assistance programs.
- Personal income tax revenues might decline if new employer regulatory requirements are cost-increasing and employers reduce workers' wages to offset these new costs.
- Regulatory responsibilities may increase around new entry of health plans within and outside the Exchange.
- Ambiguity about whether and to what extent State governments will bear any financial risk relating to State-based Exchanges
  - House legislation: "In the case of a State-based Health Insurance Exchange, there shall be assistance provided for the operation of such Exchange."

## Paying for Health Care Reform

## Task of the Administration and Congressional Committee Staffs

- Identify potential, scoreable savings from the Medicare and Medicaid programs that would address current program inefficiencies and that would not be politically difficult.
- Identify potential sources of tax revenues that would not break campaign promises relating to the tax exclusion and imposing new taxes on families earning less than $250,000 per year.

## Two Federal budgetary objectives

(1)Paying for the estimated $1 trillion dollar cost over 10 years of expanding Medicaid and providing Exchange-based subsidies to low-income Americans who lack employer-sponsored insurance.

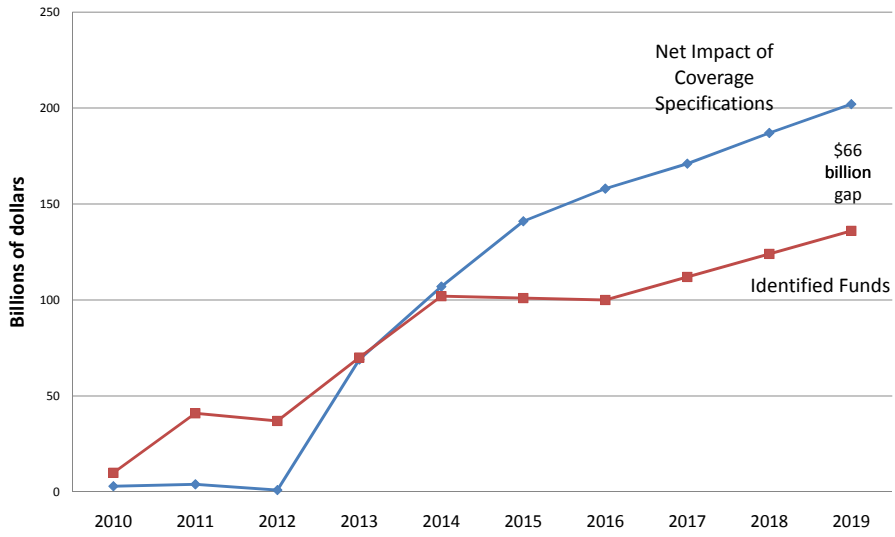
(2)Identifying strategies for slowing the growth of health care costs within the Medicare and Medicaid programs, with the potential for affecting systemic cost growth trends.

## H.R. 3200 "Pay-Fors" (2010-2019)

- Medicare and Medicaid ($219 billion/ 10 years)
  - Examples
    - Productivity adjustment to Medicare market basket updates (-$157b)
    - Medicare Advantage payment reform (-$156b)
    - Home health payment reform (-$34b)
    - Medicare/Medicaid DSH, given coverage expansion ( -$16b)
    - Medicaid prescription drug rebate changes (-$18b)
    - Payment reform for Physicians' Services (+$229b)
- Tax Revenues ($586 billion/ 10 years)
  - Examples
    - High income surcharge ($544b)
      - 1% on those with income of $350K-$500K
      - 2% on those with income of $500K-$1 million
      - 3% on households with income of greater than $1 million
    - Modifications to qualified medical expenses for HRAs, HSAs, and Health FSAs ($8b)

Source: Congressional Budget Office and Joint Committee on Taxation, July 2009.

## Coverage Expansion Costs vs. Identified "Pay-Fors"




Source: Congressional Budget Office and Joint Committee on Taxation assessment of H.R. 3200, July 2009

## Health Care is the Budget Problem

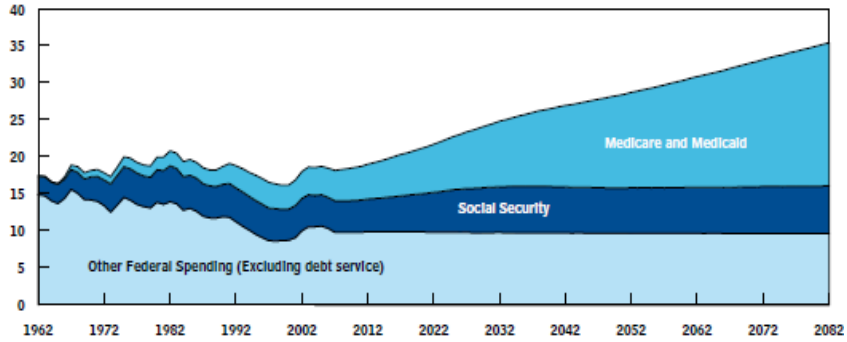
*"Health care cost growth dwarfs any of the other long-term fiscal challenges the US faces. Nothing else we do on the fiscal front will matter much if we fail to address rapidly rising healthcare costs."*

Peter Orszag
OMB Director

## Projected Federal Spending Absent Reform

**Projected Federal Spending Under One Fiscal Scenario**

(Percentage of gross domestic product)




Source: Congressional Budget Office.

Note: The figure, from the December 2007 *Long-Term Budget Outlook*, portrays CBO's "alternative fiscal scenario," which deviates from the agency's baseline projections to incorporate some changes in policy that are widely expected to occur and that policymakers have regularly made in the past.

23

## Is there still an economic case for health care reform?

- Premised on slowing the growth of health care costs
- Bold delivery system reforms are needed
  - Changing providers' financial incentives
  - Provider performance measurement and feedback
  - Reducing administrative and care fragmentation
  - Comparative effectiveness to facilitate high value care
  - Giving patients a greater role
  - Targeting fraud and abuse
- Proposals to "change the game," will need to be bolder to slow cost growth and make a strong economic case for reform.

# Contact Information

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"The Economic Case for Health Care Reform," can be accessed at:
http://www.whitehouse.gov/assets/documents/CEA_Health_Care_Report.pdf

25