

## 2A. Enact Comprehensive Health Care Reform

This section elaborates the rationale for the recommendations in the health care section of the *Prescription for Prosperity: An Economic Agenda for Pennsylvania's Future*. We also provide more detail on how agenda recommendations might be implemented. As with all sections of this “discussion draft,” we welcome feedback. (Comments may be sent to [agenda@keystoneresearch.org](mailto:agenda@keystoneresearch.org).)

Much of the economic insecurity felt by ordinary Pennsylvanians stems from unease about the growing cost and declining certainty of health care coverage. There's good reason to be concerned: between 2000 and 2005, the share of Pennsylvanians with employer provided health insurance declined from 70% to 65%, and 494,000 fewer Pennsylvania adults have employer based coverage than at the beginning of the decade.<sup>1</sup> Nationally and in Pennsylvania, the number of uninsured is on the rise. In 2005, more than one in 10 Pennsylvanians were uninsured, an increase of 22% since 2000.<sup>2</sup>

The erosion of health care coverage for the non-elderly working adults is largely the result of rapidly escalating health care costs, which in turn drive insurance premiums up. Nationally, since 2000, health care costs have increased by 87%, while overall inflation increased 18% during the same time period. Health care costs continue to consume a growing share of GDP, 16% in 2005, which is 50% higher than most European nations and Canada.

Several factors lie behind the high and rising cost of health insurance in the United States: administrative waste; underinvestment in preventive care and overuse of expensive emergency care; payment systems and financial incentives that create disincentives to adopting organizational best practices; overinvestment in and under-utilization of capital-intensive technologies, insufficient coordination across providers within regions; and the high cost of prescription drugs in the United States. Of course, costs are also driven up by an aging population and by the large amounts spent near the very end of life. But while these last factors raise difficult questions and choices, most of the other factors could be addressed with straightforward, common-sense reforms.

Rising health care costs contribute to rising health insurance premiums. According to the most recent survey by the Centers for Medicare and Medicaid, in 2006, which saw the slowest growth in premium costs since 2000, premiums increased 7.7% for all businesses, but rose 10% for businesses with 10 or fewer employees.<sup>3</sup> Not surprisingly, fewer employees in small business have private health insurance than in large businesses. In Pennsylvania, 72% of employees in firms with 5-24 employees have private insurance compared to 90% of employees with 100-999 employees.<sup>4</sup> Predictably, workers are paying a growing share of health insurance costs. Nationally, in 2006, total premiums increased to \$11,500 for family of four and on average workers paid \$3000 more in 2005.<sup>5</sup>

---

<sup>1</sup> SWP FN CPS differs from annual surveys, better to track over time).

<sup>2</sup> SWP

<sup>3</sup> CMS in Health Affairs; January 9, 2006

<sup>4</sup> Health insurance status survey p 15

<sup>5</sup> NCHC

Rapid growth in health insurance premiums hurts individuals, and places a particular burden on small businesses and non-profits, which purchase insurance in the more volatile small business market, where premiums can change dramatically year-to-year.

Some employers have responded to high costs by switching from low cost, comprehensive insurance plans to high deductible plans with higher out of pocket costs for individuals. A provision in the Medicare Prescription Drug Bill facilitated this approach by creating a system of Health Savings Accounts (HSAs), tax-free accounts that employers and employees can contribute to cover out of pocket costs associated with high deductible plans.<sup>6</sup> In 2006, the Pennsylvania Legislature made contributions to Health Savings Accounts tax deductible as well. Employer contributions are excluded from employee taxable income for PA income tax purposes and employee contributions are deducted from income.<sup>7</sup>

### **Medicaid and the Uninsured**

Increasing insurance premiums and the loss of employer-based insurance, coupled with the national recession in 2001 and 2002, have served to swell the ranks of the uninsured and drove a significant increase in Medicaid enrollments across the nation. States saw double digit Medicaid enrollment growth from 2001-2005, and in many states, health care expenditures surpassed education as the largest general fund expenditure.<sup>8</sup>

In Pennsylvania, enrollment in Medicaid increased by 320,000 between 2001-2005. By 2006 more than 1.5 million Pennsylvanians received their health care through the Medical Assistance Program.<sup>9</sup> Enrollment growth has finally begun to slow this year, is on track to increase by 3% in 2006-07 and projected for 3.6% growth in 2007-08.<sup>10</sup>

Pennsylvania has several programs to reduce the number of uninsured. Pennsylvania was a national leader in health care for children, becoming in 1993 one of the first states to support children's health insurance, and in 2006, the second state in the nation to offer universal health insurance coverage for children, regardless of family income, through Cover All Kids. The state uses the majority of its tobacco settlement funds, as well as surplus funds from insurers, for the Adult Basic Program, which offers low cost health insurance to individuals with incomes under \$40,000. The waiting list for this popular program topped 110,000 in 2006.<sup>11</sup> The state's leadership made a critical decision not to cut eligibility for the Medical Assistance program during the 2001-03 recession, which would have left the most vulnerable seniors, disabled individuals and children without insurance and swelled the rolls of the uninsured. Under Republican and Democratic administrations, Pennsylvania policymakers have expanded health insurance options for the elderly, poor, working adults and children.

---

<sup>6</sup> Unlike most tax-deductible plans, such as IRA's or cafeteria plans, contributions and withdrawals are both tax free and can accumulate over time. Not surprisingly HSAs are generally employed by higher income workers; according to a report by the GAO, more than 51% of plan enrollees have incomes of over \$75,000, compared to 18% of all non-elderly tax filers.

<sup>7</sup> PA Department of Revenue,

<sup>8</sup> NCHC/ state fact sheet

<sup>9</sup> DPW Circle report

<sup>10</sup> [http://www.budget.state.pa.us/budget/lib/budget/2006-2007/midyear/2007\\_Dec\\_Briefing\\_Web\\_Black\\_and\\_White.pdf](http://www.budget.state.pa.us/budget/lib/budget/2006-2007/midyear/2007_Dec_Briefing_Web_Black_and_White.pdf)

<sup>11</sup> Check these numbers again

## Solving the Health Care Crisis

In Washington, Federal policymakers have done little to address the swelling population of uninsured, to get a handle on rising costs of health care or to protect the quality of health insurance coverage. The Medicare prescription drug bill may have made medical inflation worse by prohibiting the Federal government from negotiating drug prices and preventing states from purchasing drugs from Canada. The Health Savings Account policy provides an incentive for employers to switch to less costly plans, but does nothing to stabilize the cost of insurance or reward responsible employers, who struggle to maintain high quality health insurance products for their employees.

There are two main tracks for health care reform nationally. The first is a renewed interest in a national health care plan modeled after the Medicare program, or the Canadian health care system, commonly referred to as single payer health care. The second is action by individual states. Since 2001 four states have adopted some form of comprehensive health care reform, combining Medicaid waivers, individual and employer mandates and insurance reform to reduce the number of uninsured and slow the growth in premiums. In 2007, four governors, including Pennsylvania Governor Ed Rendell, have introduced health care reform plans and more are expected.

There is a growing recognition in Washington that health insurance costs make US industries uncompetitive in the global economy. General Motors officials estimate that health insurance adds \$1500 to the cost of every car it produces in the U.S.

Emerging support for a national, single payer solution, such as the Conyers bill, is coming from some unlikely quarters. Wilbur Ross, chairman of International Steel Group, a Fortune 400 company argued for “some form of universal coverage; funded by government and delivered privately.” (AARP Bulletin, January 2007.) The president of the US Business Roundtable has come out in support of a national health care plan. The Michigan Chamber of Commerce polled its members in 2005, finding that 40% supported a national single payer health care program.

Unwilling to sit back and wait for federal action, advocates have pressed to expand access to health care and state policymakers have been experimenting with comprehensive health care expansions. Maryland, Massachusetts and California advocates have pressed for universal coverage for the uninsured, and have raised the issue of over reliance on public health care and other benefits by large employers. Governors in four states have led efforts to enact comprehensive health care reform initiatives, designed to reduce the numbers of uninsured, control spiraling health care costs and provide options for small employers. Maine and Vermont have plans to expand insurance to individuals earning up to \$30,000 and families with incomes up to 300% of poverty, \$60,000 for a family of four. New York’s program reduces costs to individuals and businesses by helping insurers to offer a low cost insurance product through a reinsurance (cost) subsidy program and subsidizing premiums for lower and middle income workers. Perhaps the best known plan, Massachusetts, subsidizes premiums for lower income individuals, but includes controversial individual mandates, requiring individuals to purchase, without subsidy, insurance or face a penalty. Employers who elect not to offer health insurance pay \$285 annual fee per employee into a fund to help offset the cost of insurance for the uninsured.

California Governor Arnold Schwarzenegger announced a plan on January 9 that stresses hospital cost containment and chronic disease management, but relies heavily on employer and individual mandates to ensure universal coverage. The California proposal mandates insurance for adults and

children, but, as in Massachusetts, does not subsidize insurance premiums for many middle income families.

### **What Should Pennsylvania Do?**

The two track approach to health care reform should be viewed as consistent and mutually reinforcing. Each state enacts major and progressive reforms to address health care cost and coverage raises the profile of the issue and provides more pressure and information for a federal reform. Innovation in the states is the foundation for a national solution. Pennsylvania can add to the national debate and raise the stakes through support for a national single payer plan and enactment of a comprehensive state level health care plan.

Support a national single-payer health care plan. Health care is a national problem that will ultimately require a national solution. A single payer plan would significantly reduce administrative costs, which are three times as high in the US as in other developed countries, and make it possible to work systemically on the other factors that drive up costs. House Bill 676, the Medicare for All bill creates a Medicare model program that offers choice of doctors reduces administrative costs and supports preventive medical care and wellness.<sup>12</sup>

Adopt a Comprehensive State Health Care Reform Plan. Short of single payer, the state should ensure that incremental steps would not impede a single payer approach in the future. A comprehensive plan that tackles cost and accessibility should be adopted. At a minimum the plan should:

1. Expand coverage to uninsured adults.
2. Reduce costs to businesses and to employees
3. Tackle rising health care costs.
4. Support wellness, chronic disease management and preventive care.
5. Reform insurance laws to reduce costs and stabilize premiums.
6. Reinforce comprehensive, high quality insurance plans as the standard to be achieved, and move away from high deductible, low coverage insurance plans.

Governor Ed Rendell announced his plan, the Prescription for Pennsylvania, in January. The Prescription is the most comprehensive state plan to date, and the first to tackle health care costs in a meaningful way.

Evaluating the Prescription for Pennsylvania.

The Prescription for Pennsylvania is complex and comprehensive. There are many details to be discussed and determined, and a dialogue is necessary to ensure that the plan has the greatest benefit and fewest unintended negative consequences. It appears in broad strokes to meet the six criteria outlined above.

The plan should also be evaluated based on its contribution to the national debate, and the direction it moves the health care system. The Prescription does reverse course from the policies of the last few years, and stands in marked contrast to the approach taken in President Bush's health care plan. The Prescription expands access to higher quality health insurance plans, and

---

<sup>12</sup> Any single payer plan should include a worker training and adjustment fund for displaced insurance company workers .

proposes to reduce costs of insurance through direct subsidies, insurance reform and cost cutting measures throughout the system. The Rendell plan would force employers to contribute to the cost of employee health through a payroll tax. In contrast the President's plan would penalize employers who offer comprehensive, low deductible health care plans and encourage individuals to move to the high cost private insurance market through a tax credit. The credit would be of little use to lower income families who would not receive enough of a tax benefit to purchase a decent plan. The cost to employers could go down under this scenario, but only because the quality of health insurance plans would decline.

Improved access to higher quality, lower cost health care is important an important goal to Pennsylvania's and will strengthen our economy and our commitment to a fundamental human right.