



## What's at Issue: Making Coverage Affordable for Every American

By Karen Davis



The White House's "Health Care Summit" on February 25 identified many areas of common cause between President Obama and members of Congress. They agreed broadly on the goals for reform and on many specifics, but a fundamental divide remains over how to make coverage affordable for every American and find a way to pay for it.

The President's proposed approach, as well as the comprehensive reform proposals passed by the House of Representatives and Senate, would provide affordable coverage for those who are uninsured and ensure that premiums and medical bills do not exceed an affordable share of income for those with coverage. By contrast, Republican leaders offer several small steps that would assist certain groups—including tax credits for small businesses, tax incentives for health savings accounts, and state high-risk pools—but fail to make a substantial change in the numbers of uninsured and those experiencing difficulties paying premiums and medical bills. The President's plan would cover 31 million uninsured while the Republican leaders' plan would cover 3 million. The President would guarantee affordable essential benefits while Republican plans emphasize high deductibles and high-risk pools with catastrophic coverage.

Fifty million Americans lack health insurance, 25 million are underinsured, and 72 million struggle to pay medical bills or accumulated medical debt. Spiraling health care costs have led to stagnating incomes, leaving even middle-

class families struggling to pay health insurance premiums and placing untenable burdens on employers and federal, state, and local governments. Democratic leaders feel the problem is too urgent to "start over" with a charge of finding bipartisan consensus, given the failure of a year-long effort to do just that. Republican leaders prefer modest incremental steps, giving more time to developments in health insurance markets and business and state governments' efforts to find solutions.

### The President's and Congressional Comprehensive Health Reform Proposals

The President set several crucial tests for any health reform package: Does it provide adequate protection against abuses by the insurance industry? Does it make coverage affordable and available to the tens of millions of working Americans who don't have it? Does it bring down costs for all Americans as well as for the federal government? And does it help put us on a path of fiscal sustainability?

The President's proposal and bills passed in the House and Senate would make real strides toward these goals. Most crucially, the proposed health insurance expansions and subsidies would bring coverage to more than 30 million Americans, while making coverage more affordable and stable for all of us. In addition, the bills would:

- [Limit families' out-of-pocket medical expenses and reduce health insurance premiums](#)—by an estimated \$2,500 per family in 2019. [link to]
- Institute strong rules for private insurers, creating a standard for essential health benefits and ensuring that no one is denied coverage because of preexisting

conditions or has their policy cancelled when they become sick.

- Begin to reward physicians and hospitals for providing better-quality care, including strengthening primary care and prevention and giving patients greater access to their doctors and nurses.
- Reduce the federal budget deficit—by offsetting the nearly \$1 trillion 10-year cost of ensuring affordable coverage for all with federal budget savings and tax revenues that result in a net \$130 billion estimated savings in the federal budget over 2010–19.
- Cut costs through payment and delivery system innovations that make care safer and more effective and promote prevention and better health outcomes while reducing waste, duplication, avoidable hospitalizations, and administrative hassles and complexity.
- Ensure no one goes without care because of cost.

### Republican Health Reform Proposals

While Democrats would like to extend health insurance to nearly all Americans, the Republicans argue that it is too costly to do so. Rather than mandating individuals to obtain coverage or employers to offer it, Republican legislators would offer tax credits to small businesses and individuals to purchase their own insurance and use market reforms to attempt to make coverage more affordable and widely available.

For example, Republicans propose to allow insurance companies to sell policies across state lines in an effort to promote competition in the private insurance market and lower costs. Yet, interstate variations in premium costs are due to variations in the underlying costs of care and the health risks of the covered populations. If everyone in New York were to buy insurance in a state where premiums were lower (because providers there charge less and use less care), their premiums would go up over time to reflect the true costs of providing care in New York to New York residents.

What's more, allowing health plans to market insurance across state lines would undermine state insurance regulations. Only a few states (including New York, Massachusetts,

and New Jersey) enforce consumer protections such as guaranteed issue, guaranteed renewal, and community rating. In a national insurance market, younger and healthier patients would gravitate toward states where premiums are lower because plans offer few benefits and operate under loose regulations, while sicker patients could only buy in states like New York or Massachusetts because they can't get coverage elsewhere. This would result in a "death spiral," with premiums climbing in those states with more tightly regulated insurance markets.

This could be avoided by requiring insurance companies in all states to offer coverage to everyone, regardless of health status, and charge the same premium regardless of health risk, preexisting conditions, or health problems. This is at the heart of the insurance exchanges and insurance reforms that would be offered under the President's and congressional proposals. But insurers have said they are unwilling to do this unless everyone—the healthy as well as the sick—is required to purchase coverage to avoid an insurance premium death spiral, a requirement that Republicans have opposed. And simply requiring everyone to buy coverage without premium assistance to make it affordable isn't feasible either, and to date Republicans have not offered a plan that would provide sufficient subsidies to make coverage affordable for all.

Instead, Republicans propose to build on health savings accounts, allowing the funds in these tax-sheltered accounts to be used to pay for premiums. Yet the tax subsidies that support these accounts go disproportionately to high-income people. In addition, the [evidence shows](#) that health savings accounts linked to high-deductible plans lead to underutilization of essential care and cause people to skip needed medication, resulting in avoidable emergency department use and hospitalizations.

For those who cannot find affordable coverage because of their medical conditions, Republicans would provide federal subsidies for states to expand high-risk pools. But high-risk pools have not worked well; most have high premiums relative to the commercial market (sometimes multiple times higher), high deductibles, and long waiting periods.

The [35 existing high-risk pools insure only about 200,000 people](#), or an estimated 5 percent of the potentially eligible high-risk uninsured.

### What's the Potential for Cutting Costs and Premiums?

The Congressional Budget Office [estimates](#) that the lowest-cost basic plans in the insurance exchange would have family premiums of about \$15,000 in 2016. All of the strategies advanced by the President, Democrats, and Republicans for cutting health care costs and premiums—crackdown on fraud; malpractice reform; administrative simplification and limits on insurance overhead; payment and delivery system reform; prevention; employer wellness programs; information technology; comparative effectiveness research; competitive insurance exchanges; transparency of information on insurance premiums, health care prices, and quality; divulging relationships between pharmaceutical and device companies and physicians; rewards for quality and penalties for poor quality such as hospital-acquired infections and avoidable hospital readmissions; use of surgical checklists; and many other good ideas—simply don't come close to making such a premium affordable for the average family.

All of the best ideas for cutting costs would probably amount to a 1.5 percentage point a year reduction in the rate of increase in premiums and costs—not the 30 percent

to 50 percent savings that some like to dream about. The Congressional Budget Office (CBO), in fact, attributes even less than 1.5 percentage points a year to potential savings of all of the cost-containment provisions included in various bills, even though the industry has pledged to achieve that rate. Trimming 1.5 percentage points off of health care spending every year is real money: it would yield [\\$3 trillion in total health system spending over 2010–20](#) out of the \$35 trillion we are expected to spend over that period. But it would still yield higher premiums and spending every year, failing to bring \$15,000 family premiums down to a level that families making \$40,000 a year—median U.S. income—could afford.

### Finding a Way to Pay for Affordable Coverage

At bottom, the hard truth is that the only option for making a \$15,000 family premium affordable for most working families is to give them some help. That help can come from employers or government. Fortunately, 160 million Americans now have help from their employers, who on average pick up 75 percent of the family premium. Eighty million elderly, disabled, and low-income people are covered by Medicare or Medicaid. But that leaves nearly 50 million Americans uninsured and another 10 million to 25 million who need help paying their premiums or medical bills.

**Analysis of Exchange Subsidies and Enrollee Payments for a Family of Four in 2016 under House Bill**

Income Relative to the FPL	Premium Cap as a Share of Income <sup>1</sup>	Middle of Income Range <sup>2,3</sup>	Enrollee Premium in Reference Plan <sup>5</sup>	Premium Subsidy (share of premium)	Government Contribution to Premium
100-150% <sup>4</sup>	1.6-3.2%	\$30,000	\$500	97%	\$14,500
150-200%	3.2-5.9	42,000	1,900	87	13,100
200-250%	5.9-8.5	54,000	3,900	74	11,100
250-300%	8.5-10.7	66,000	6,300	58	8,700
300-350%	10.7-11.7	78,000	8,800	41	6,200
350-400%	11.7-12.8	90,100	11,100	26	3,900
400-450%	--	102,100	15,000	0	--

Notes: <sup>1</sup> In 2013, the income-based caps would range from 1.5% to 12%; in subsequent years they would be indexed. <sup>2</sup> In 2016, the FPL is projected to equal about \$24,000 for a family of four. <sup>3</sup> Under the bill, subsidies would be based on enrollees' adjusted gross income. <sup>4</sup> Under the bill, people with income below 150% of the FPL would generally be eligible for Medicaid and thus ineligible for exchange subsidies. <sup>5</sup> The actuarial value of reference plan is 70%. Source: Congressional Budget Office, Letter to the Honorable Charles B. Rangel, November 2, 2009.



The Senate and President stopped short of requiring all employers to help pay for coverage for their workers, but they do require some contribution if their employees qualify for government assistance. Employers with 50 or more employees would pay \$750 per employee under the Senate bill and \$3,000 per employee under the President's plan. Employees whose employers don't provide coverage could purchase it through an insurance exchange or marketplace and be eligible for government help paying the premium. The amount of help would be based on family income. The very lowest-income individuals—for example, a family with income under \$30,000—would qualify for Medicaid. As shown in the CBO chart below, under the Senate bill a family with income of \$30,000 would pay \$500 a year and the government would pick up the remaining \$14,500. For a family with income of \$54,000, the family would pay \$3,900 and the government would pay \$11,100. For a family with income of \$66,000, the family would pay \$6,300 and the government would pay \$8,700. A family making over \$100,000 a year would pay the entire \$15,000.

Even if employers who now provide coverage keep doing so and a few more large firms make contributions to a health insurance fund, the amount contributed by government for income-related premium and out-of-pocket medical bill subsidies for families with incomes below \$88,000 totals \$850 billion to \$1 trillion over 10 years. And that's the rub! To their credit, the President and Democratic congressional leaders have found ways to pay for these subsidies while *reducing*, rather than adding, to the federal budget deficit. All have been difficult—and unpopular—political decisions. Hospitals and other providers would forgo some of their rate increases over time (the so-called Medicare cuts) as the uninsured are covered and bad debts are reduced. Medicare beneficiaries' basic benefits would not be reduced, and their benefits for prescription drugs and preventive services would be improved. Proposed reforms would, however, eliminate overpayments to private Medicare managed care plans. Pharmaceutical, medical device, and insurance companies would pay new fees. And families making more than \$250,000 a year would pay higher taxes. No provider, of course, wants to give up even a portion of increased revenue in the future, and no higher-income family wants to have their taxes increased, even if they have benefitted disproportionately from tax cuts over the last decade.

Republicans have opposed requiring employers to contribute to coverage, the economies in the Medicare program, and higher taxes for higher-income families, and have not offered alternative financing measures to make coverage affordable. There is little evidence that market forces will ever make even a basic health insurance plan affordable for working families without help from employers and government. It takes a shared financial responsibility with contributions from families, employers, and government to accomplish that feat.

### Why Move Forward

Given the lack of bipartisan consensus and opposition engendered in part by those who resist the changes proposed, it might be tempting to put off health reform to another day. But the need for action is compelling for at least three reasons.

- First, things will get worse if we don't act. Our health system is under serious strain. Fewer and fewer hospitals and emergency rooms are shouldering more and more of the load of caring for those who cannot pay. It's hard to provide quality care to everyone when institutions are under financial distress. The U.S. fails to get the health results achieved in other wealthy countries because it has a fragmented system and lacks public policies that would ensure continuous quality improvement and effective use of resources. Coverage of the uninsured is a prerequisite to the transformation of health care delivery to focus on prevention and population health and reward the best results, with every patient cared for by a medical practice or health system that takes responsibility for ensuring accessible, coordinated care.
- Second, it's good for our economy. The Council of Economic Advisers has [estimated](#) that comprehensive health reform would enhance worker productivity, keep workers in the labor force longer, and remove distortions in the job market, with savings equal to 2 percent of our total economic resources in 2020 and 8 percent in 2030. The reform proposals would begin a period of sustained innovation to improve care, lower cost, reduce inefficiency and waste, and reward better health.

- Third, serious illness or injury could happen to any one of us. The economic contraction we have experienced brings home the insecurity of our jobs and, with them, our health coverage. Young adults who can't find a job with coverage are one major illness or injury away from needing health care desperately. Even workers fortunate enough to have coverage wait with apprehension during annual insurance enrollment periods to see if they can still afford their share of premiums and out-of-pocket medical bills. And the few unfortunate enough to have to buy coverage on their own are scared stiff that the next 20 percent to 40 percent premium hike will put that coverage out of reach.

I believe that it is our moral responsibility to see that everyone who needs health care receives it. The uninsured are our family members, our neighbors, and those who serve us every day, from the day care worker who takes care of our children to the clerk at the drug store or worker making our food at a restaurant. It is the mark of a decent, humane society to take care of each other—and the U.S. is the only industrialized nation that fails to do so.

Now is the time for the nation's leaders to rise to the challenge. It's not about the number of pages in the bill or the process of getting it done; it's about making coverage affordable to every American. We cannot afford to fail, and we cannot let down those who struggle to get the care they need and pay the bills their illnesses and injuries have inflicted on them. We are one nation, not Democrat or Republican, but fellow human beings who deserve a helping hand when most in need.

