



## A New Era in American Health Care

By Karen Davis and Sara Collins



The historic action by the House of Representatives in passing comprehensive health reform legislation will usher in a new era in American health care—one in which all Americans will be able get the care they need without incurring financial hardship, and no American will be denied health insurance coverage simply because they have a preexisting medical condition.

Health reform will provide new security for working-age Americans across the income spectrum, increasing access to needed care for millions who are currently uninsured and underinsured. It will cover an additional 32 million people by 2019, or 95 percent of legal residents, by expanding eligibility for Medicaid and by bringing sweeping change to the individual and small group health insurance markets with new premium subsidies. New regulations will prohibit insurers from excluding or charging higher premiums to individuals and small businesses on the basis of health status or preexisting medical conditions, charging excessive premiums to older adults, revoking coverage when people get sick, or setting lifetime and annual limits on what plans will pay. Young adults will be able to remain on their parents' health plans up to age 26 beginning in 2010.

New state-based insurance exchanges will provide structured marketplaces, where small businesses and people without employer coverage may select health plans that will have to meet new standards for comprehensive coverage and consumer information. Families with incomes between \$30,000 and \$88,000 a year will be eligible for premium subsidies for plans purchased through the exchanges (those with incomes up to \$30,000 for a family of four would become eligible for Medicaid). These subsidies would cap premium costs as a share of income at 3 percent for families earning just over \$30,000, and would rise with income to 9.5 percent for families earning \$88,000. In addition, families in that income range would also have their out-of-pocket costs capped, or would be eligible for cost-sharing subsidies that would reduce their medical bills.

Small businesses, which have suffered from rising health care costs and the recession, will benefit from new market regulations against underwriting and will be able to purchase health coverage through the insurance exchanges, which will reduce the costs they incur in searching for health insurance. In addition, a new tax credit will be available for up to a two-year period starting in 2010 for small businesses with fewer than 25 employees and with average wages under \$50,000, to offset the cost of their premiums. The full credit would be available to companies with 10 or fewer employees and average wages of \$25,000, and would phase out for larger firms. Eligible businesses would have to contribute 50 percent of their employees' premiums. Between 2010–13, the full credit would cover 35 percent of a company's premium contribution. Beginning in 2014, the full credit would cover 50 percent of that contribution.

Health reform will also bring important new benefits to people over the age of 65. It will improve Medicare prescription drug benefits by providing a \$250 rebate to people who reach the coverage gap, or “doughnut hole,” in 2010, and the doughnut hole will phase out completely by 2020. Preventive care will be strengthened in both traditional Medicare and private plans, as the bill eliminates cost-sharing for proven preventive care services, and provides an annual wellness visit for Medicare beneficiaries with no co-payment. The new legislation will also help workers finance long-term care should they become disabled or frail.

Many Americans will feel the effect of the reform this year, as significant changes start to go into effect. Within the year:

- underwriting of children in the individual market will be prohibited;
- young adults will be able to stay on their parents’ health plans to age 26;
- insurance companies will be prohibited from revoking coverage when people become ill, and from setting lifetime limits on benefits;
- small businesses will be eligible for new tax credits to offset their premium costs;
- people with preexisting conditions will be eligible for subsidized coverage through a national high-risk pool;
- new limits will be set for the percent of premiums that insurers can spend on non-medical costs and, beginning in 2011, carriers that exceed those limits will be required to offer rebates to enrollees;
- Medicare will provide \$250 rebates beneficiaries who reach the doughnut hole; and
- Medicare will eliminate cost-sharing for preventive services in Medicare and private plans.

All of these improvements in health benefits for Americans will occur in a way that does not add to the federal budget deficit or accelerate the growth in health care spending.

The Congressional Budget Office estimates that health reform, as passed by the House of Representatives, will reduce the federal deficit by \$143 billion over the next 10 years (2010–19). Congress is making the tough choices to both achieve savings of about \$500 billion in the current federal budget over the next decade, and raise the revenues needed to finance the balance of the federal budget cost of this important reform. The legislation creates a new Center for Medicare and Medicaid Innovation within the Centers for Medicare and Medicaid Services to test new methods of payment for medical homes, accountable care organizations, and bundled hospital and post-acute care. These efforts will markedly increase incentives to reduce avoidable hospitalizations. It also adjusts provider payments to account for improvements in productivity. And it restructures Medicare Advantage payment rates to make them more reflective of the costs that private plans face with rewards for low-cost areas and high-performing plans.

Commonwealth Fund [estimates](#) indicate that total health spending will slow under this reform—from a 6.6 percent annual rate of increase to less than 6 percent. Employers and workers will also realize savings. Health insurance premiums will be reviewed—preventing increases of 20 to 40 percent that have recently been proposed by insurance companies. Reform will save the average American family \$2,500 in 2019.

Most important, the legislation will put the U.S. health system on a path to high performance, by providing for the testing of new ways of paying doctors and hospitals to reward results rather than fees based on the volume of services delivered and for the development of strategies to promote prevention and improve quality. An Independent Payment Advisory Board will be established and charged with issuing recommendations to achieve federal health spending targets, as well as non-binding recommendations for private payers to harmonize private and public payment and achieve system-wide savings.

The U.S. will now join all other major industrialized countries with a system for ensuring access to essential health care, and we will lay the foundation for a high performance health system that yields access to care for all, improved quality, and greater efficiency. It is a victory for all Americans, who deserve the finest health system in the world.