

MEMO

January 2, 2010

TO: The Board of Three Parks Independent Democrats

FROM: Steve Max, Chair Health Care Committee

The Current Health Care Situation

The Moment Of Truth Approaches

The moment is rapidly approaching when proponents of a nation health care system will have to decide if the proposal now being debated in Congress should become law or be defeated.

Some progressive observers are hailing the bill as a historic breakthrough on the level of Social Security, others say it is a disaster. Obviously we will have to wait and see what comes out of the House /Senate conference process, but unless the House negotiators can pull a miracle out of a hat, and there is little to suggest that they have the inclination or power to do so, a new system based on the Senate bill could easily have a negative impact on many Americans.

There are five troubling areas to watch:

1. Subsidies are inadequate and premiums unaffordable for many families.
2. The tax on existing plans will reduce healthcare for millions of families.
3. Medicare cuts will reduce the availability of services for seniors.
4. Fines imposed for not buying insurance will be a major hardship.
5. Restrictions on reproductive choice will be onerous.

Each of these will be briefly described below.

Note: Eighty-one percent of people under age 65 already have insurance. Projections are that by 2016, ninety-two percent would have it under the Senate bill. The number of uninsured people will drop from 52 to 22 million (stupidly excluding undocumented immigrants). While it includes broader and worthwhile insurance reforms, this bill is essentially about 30 million people, less than the population of California.

Premiums

The exact premiums for new insurance purchased on the new exchanges have yet to be set. However, the Congressional Budget Office (CBO) and the Joint Committee On Taxation (JCT) have made a series of projections based on the formulas in the Senate bill. These apply to the second lowest cost of the four regular plans to be offered (the "Silver Plan"). The

premiums will be subsidized according to income for people of up to 400% of poverty. (The current poverty level is \$22,050 for a family of four.)

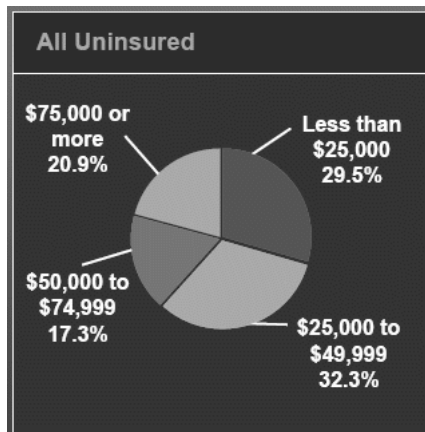
Here are some examples from the report. Remember that the income figures are before taxes and that disposable income is less. As a very rough guide, deduct 23% for income and Social Security taxes. The Census Bureau graph below this table shows the income distribution of people without health insurance (2008).

Approximate Single Income	Premium Cost for Silver Plan Single individual plan after subsidy and cost sharing*
\$20,600	\$2,500
\$32,400	\$4,900
\$44,200	\$6,400
\$50,000	\$7,100

Approximate Family Income	Premium Cost for Silver Plan Family plan - 4 people after subsidy and cost sharing
\$ 30,000	\$ 2,300
\$ 54,000	\$ 9,000
\$ 78,000	\$12,900
\$102,000	\$19,100

*In the example of a single individual with an income of \$20,600, the actual premium would be \$5,200 minus a 77% subsidy = \$1,200 (rounded), plus out-of-pocket (cost sharing) of \$1,300 (after a cost sharing subsidy of \$600) = \$2,500. Note that the cost sharing is based on an estimate of how much health care a person actually uses in a year. If the person who had this insurance policy never went to the doctor, then the cost would only be \$1,200. Cost sharing means co-pays and deductibles. The Silver Plan is calculated to cover 70% of average expenses. The rest is co-pays and deductibles. <http://www.cbo.gov/ftpdocs/107xx/doc10781/11-30-Premiums.pdf>

Uninsured by Income



Taxes

Thanks to a recent NY Times column by Bob Herbert and the work of the AFL-CIO and the Communications Workers Union (CWA) we are now beginning to understand the far-ranging impact on the Senate proposal to tax what is euphemistically called “Cadillac” plans. Actually this tax will hit a large portion of the middle class.

http://www.nytimes.com/2009/12/29/opinion/29herbert.html?_r=1

The tax of 40% on premiums over certain thresholds will raise \$149 billion over ten years says the JCT. Starting in 2013 The tax will initially be placed on the portion of the premiums of family plans that exceeds \$23,000 and \$8,500 for single individuals. (These are averages and there are some exceptions for certain individuals and certain high cost states where the thresholds will be higher. Higher thresholds are good.)

At first glance, this appears non-threatening because very few of us have plans costing more. However, inflation soon changes the picture. The thresholds do rise with inflation which is good because more of the premiums are sheltered from the tax as the threshold goes up. However, the adjustment is based on the Consumer Price Index (CPI) not on the rate of medical inflation nor on the rate at which insurance companies have actually been raising prices. The CPI is projected to rise at a rate of 1.8% a year, but medical inflation is 3.8% and health insurance costs has risen at an average of 6% according to a CWA report. The result is that, based on the JCT projections, 27% of single plans and 22% of family plans will be hit by the tax by 2019 and the number will increase thereafter. More specifically one fifth of all households in the \$50,000 to \$100,000 income range will be affected by 2019. It should be understood that this tax is not on individuals but on insurance companies and corporations that self-insure.

As an example of the actual cost, the Communication Workers union has calculated that the tax on a member’s family policy in New York state will total \$55,968 over a ten year period. In New Jersey, where CWA members are state and local public employees rather than telephone company workers, the tax will be \$21,059 over ten years. It is assumed by the JCT, and presumably by the Senate Democrats, that the insurance companies will not be willing to pay these taxes and will consequently redesign their plans to make them less expensive and bring them under the thresholds. This means fewer benefits and higher co-pays and deductibles. Here we see the “genius” of the Senate plan. It will lower health care costs by taxing them away from working people.

From this point on, the logic and the numbers get even fuzzier. The JCT foolishly assumes, that when health benefits are reduced, employers will give workers pay raises to make up for the lost benefits. Consequently, they say, workers will pay higher income taxes, and this is supposed to be the source of 82% of the \$149 billion that the Senate bill will raise to pay for the low income health care subsidies. Does anyone really believe in today’s economy (or ever) that employers will give raises to compensate for reduced benefits? http://files.cwa-union.org/healthcarevoices/091217_CWAExciseTaxReport.pdf

Fortunately, we need not speculate on this point. On December 3rd the Mercer company, a human resources consulting firm, released a survey of 465 health plan sponsors (employers). Sixty-three percent said they would cut benefits rather than pay the tax. Twenty-three percent said they would pay the tax but pass on the cost to employees. Less than one-fifth, (16%) said they would convert cost savings into higher pay.

<http://www.mercer.com/summary.htm?idContent=1365780>

Medicare Cuts

In total, the CBO estimates that enacting cuts in Medicare, Medicaid and other programs would reduce direct spending by \$491 billion over the 2010–2019 period.

The provisions that would result in the largest budget savings include these:

- Permanent reductions in the annual updates to Medicare's payment rates for most services in the fee-for-service sector (other than physicians' services), yielding budgetary savings of \$192 billion over 10 years.
- Setting payment rates in the Medicare Advantage program on the basis of the average of the bids submitted by Medicare Advantage plans in each market, yielding savings of an estimated \$118 billion over the 2010– 2019 period.
- Reducing Medicaid and Medicare payments to hospitals that serve a large number of low-income patients, known as disproportionate share (DSH) hospitals, by about \$43 billion - composed of roughly \$22 billion from Medicaid and \$21 billion from Medicare DSH payments.

The cuts to Medicare Advantage are on the whole a good thing. The program was a Republican ploy to privatize Medicare by subsidizing private insurance. However, twenty-two percent of the people on Medicare, that is almost ten million seniors, are in Advantage programs making this cut politically volatile for the Democrats. Clearly, the whole approach is to take money away from Medicare and Medicaid to pay for subsidies and make a deficit reducing "profit." Although Paul Krugman has referred to it as the "grand bargain," it is a bad thing to do. http://www.nytimes.com/2009/12/04/opinion/04krugman.html?_r=1

Penalties for not buying insurance

For those who can't or won't buy insurance there will be a tax penalty which, by 2016, will reach \$750 or 2 percent of income (with a maximum of \$2,250 for a family). The penalty would be adjusted for inflation after 2016. The penalty in the house version is actually higher, 2.5%. Exceptions: There will be no penalty if the cost of cheapest available plan exceeds 8 percent of household income. American Indians, people with religious objections, people who can show financial hardship and people with income below 100 percent of the poverty level will be exempted if they can prove it.

In light of the high premium costs, this fine seems particularly punitive. It will no doubt create a political backlash and a constitutional challenge. It should be removed. As we have said many times, the way to cover everyone is through a universal Single Payer plan paid for through a progressive income tax.

Abortion

The final Senate version is not as bad as some previous amendments, but still bad. It requires that women (families) who receive government subsidies for health insurance, take out separate abortion insurance policies and pay for them out of pocket with a separate check. In other words, one must plan for unplanned pregnancies.

In contrast, the federal government will provide \$25 million a year for a “pregnancy assistance fund.” The money could be used for “maternity and baby clothing, baby food, baby furniture and similar items.”

Obviously, abortion should be treated as any other medical expense. Unfortunately the House version is no better.