

Toward Universal Health Care for California: A Proposal for Expanding Coverage and Controlling Costs

Key Elements:

Eligibility: All working Californians and their dependents. This represents 4.2 million of the 6.6 million who are estimated to be uninsured at some time during the year. The remaining uninsured population would continue to be covered by the current safety net.

Health Insurance “Connector.” The Managed Risk Medical Insurance Board (MRMIB) would be responsible for establishing the “Connector” and administering the program. The Connector would act as a purchasing pool for the uninsured.

Like the model used by CalPERS, the Connector would develop standards for coverage and negotiate favorable rates by leveraging its purchasing power. Participating employees would be offered a choice of health plans that provide comprehensive health coverage including medical, hospital and prescription drug benefits. In addition, employers (especially small employers), and individuals that wish to purchase coverage through the Connector would be able to do so.

- **Choice of Plans.** In this model, contracting health plans would compete on the basis of cost and quality, meaning providers could not fashion plans to attract only healthy individuals. The Connector would establish ground rules for health plans so consumers can make informed choices. Employees would be able to choose selected plans arrayed in three tiers: Plans offered in the first tier would be high quality and low cost and would require modest member co-pays (e.g., HMO type plans), while plans in the higher-level tiers (e.g., PPO type plans) would require members to pay more.
- **Cost Containment.** Participating health plans would be required to cap administrative costs and profits and implement evidence-based practices that will control growing health care costs. These include preventative care, case management for chronic diseases, promotion of health information technology, standardized billing practices, reduction of medical errors, incentives for healthy lifestyles, appropriate patient cost sharing and rational use of new technology.
- **Medi-Cal Managed Care Buy-in.** To assure affordability, the Connector would be allowed to “buy in” on a negotiated basis to Medi-Cal managed care plans. These plans now provide coverage for more than 3 million Medi-Cal recipients at significantly lower rates than the commercial health insurance market. By leveraging the state’s purchasing power, the Connector would obtain low-cost coverage.
- **Underwriting standards.** Contracting plans would be required to provide guaranteed issue and community rating. Individuals with pre-existing medical

conditions who cannot get health insurance now or who are effectively priced out of the market would be able to get coverage through the Connector.

Financing

- **Trust Fund:** A Health Insurance Trust Fund would be established. Employer contributions and employee fees would be collected by EDD and deposited into the Trust Fund. Any other dedicated revenues would also be deposited in the Trust Fund. These funds would be used by the Connector to buy health coverage for eligible Californians.
- **Pay or Play for Employers.** All employers would be required to spend a certain percentage, yet to be determined, of social security wages (adjusted on a sliding scale basis) for employee health insurance costs. Employers who choose NOT to provide health insurance could elect to pay an equivalent amount (adjusted for risk) to the Trust Fund. Employee contributions equal to a certain percentage of payroll, as yet to be determined, would be collected by the employer.

Maximize Federal funds.

Maximizing federal funds will help defray the cost of the program. This would be accomplished by expanding eligibility for parents and children up to 300% of the federal poverty level (FPL). The Connector would pay the non-federal share of cost for the expansion. This may require a federal waiver.

- **Medi-Cal Expansion for Parents.** The state would submit a Medicaid state plan amendment to the federal government to increase Medi-Cal (1931b) coverage for working parents from 100% of the FPL to 300% of the FPL. This would cover about 1.2 million uninsured parents.
- **Healthy Families Expansion for Children.** The state would increase Healthy Families coverage for children from 250% of the FPL to 300% of the FPL. This would cover about 58,000 uninsured children.

Individual Mandate.

All working Californians and their dependents would be required to have a minimum health coverage policy. The minimum coverage benefit level would be determined by MRMIB.

- **Enforcement through the Tax Code:** All taxpayers would be required to show proof of health coverage. If proof of insurance is not provided, the individual's tax is computed without the benefit of the personal exemption credit or dependent credit.

Building Blocks for Health Insurance Reform

To compete effectively in a 21st century economy, California needs a healthy workforce. The following building blocks provide the foundation for comprehensive health care reforms needed to control costs, expand coverage and improve quality of care.

- **Shared Responsibility – No More “Free Riders.”** Building on the current system that provides workers with unemployment insurance and state disability insurance, all California workers and their dependents would be covered.
 - Employers and employees would share the responsibility for the cost.
 - All workers would be required to show proof of health coverage in order to claim certain tax credits for themselves and their dependents.

- **Cost Control Incentives – Competition Based on Price and Quality.** Employers would have a choice of either providing health insurance as they do now, or contributing to a purchasing pool called the Connector.
 - The Connector would negotiate the best rates and offer employees a choice of plans.
 - Plans would compete on the basis of price and quality – not medical underwriting. That means providers could not fashion plans to attract only healthy individuals but rather must offer plans available and desirable to all.
 - To make sure there’s an affordable product, the Connector would be authorized to buy coverage through the Medi-Cal Managed Care program.

- **Maximize Federal Funds.** New federal funds would be used to subsidize the cost of health coverage for low-income families.
 - These federal funds would be maximized by expanding the Healthy Families program and Medi-Cal to cover all eligible children and their parents up to 300% of the federal poverty line.
 - The federal funds require a state match, and that match would be provided by employer and employee contributions through the Connector, not by the state general fund.

Q&A

1. How does this compare to the Governor's proposal/idea?

The Governor hasn't unveiled his proposal yet. However, when the governor vetoed Senator Sheila Kuehl's universal health care legislation, SB 840, he said he wanted to work with the Legislature to develop a comprehensive and systemic approach to health care that not only provides affordable medical treatment to people when they are ill, but that strives to make sure people don't get sick in the first place. The governor recognized the importance of cost containment and the shared responsibility of individuals, employers and government to pay for it. He asked for a proposal that promotes personal responsibility and builds on existing private and public systems.

The Perata proposal contains all of these elements.

2. How is this different than SB 2?

This proposal starts where SB 2 left off. The chief difference is the focus on affordability, cost containment, and individual responsibility. By maximizing federal funding opportunities and allowing a "buy-in" to Medi-Cal managed care plans, we assure the availability of an affordable product through the "Connector's" purchasing pool. Controlling costs through an emphasis on prevention, disease management, and administrative savings would also be a priority. Unlike SB 2, there is an individual mandate – enforced through the tax system – that recognizes the responsibility of individuals to maintain health coverage.

3. What about undocumented workers?

Like Unemployment Insurance and State Disability Insurance, the proposal only covers Californians and their dependents who are working here legally and paying taxes.

4. Why not cover everybody?

Sen. Don Perata is committed to the goal of universal coverage. That's why he co-authored legislation by Sen. Kuehl last year to provide universal coverage. However, that measure was vetoed by the Governor. This proposal represents a compromise that balances concerns about costs with the goal of increasing coverage. Sen. Perata believes making sure that all working Californians have health insurance is the most practical first step toward achieving the broader goal.

5. Wouldn't hundreds of thousands of people still be uncovered – meaning continuing pressure on hospitals emergency rooms and doctors who treat the poor?

Sen. Perata hopes to reduce the uninsured population by two-thirds. This goes a long way toward alleviating the pressure on emergency rooms. There will still be more than 2 million people who remain uncovered, but they would continue to receive health care from the county safety net, as they do now. The Perata proposal is an important incremental step that moves in the direction of universal coverage.

6. What's the total cost for providing coverage under this proposal?

The best estimate is between \$5 billion and \$7 billion.

7. How will this be paid for?

This would be paid for through employer and employee contributions in the same way that Unemployment Insurance and State Disability Insurance is. Increased federal funds through the Healthy Families program and Medi-Cal would reduce these costs.

8. How much will individual employers and employees have to pay?

Sen. Perata has requested technical assistance from the California Health Care Foundation to help determine costs and optimal contribution thresholds.

9. How hard will it be to increase federal funding through Medi-Cal and the Healthy Families program? Will it be difficult to get the federal waivers required?

That's tough to know at this point. The federal government has shown a willingness to work with other states, such as Massachusetts, to facilitate similar health coverage plans. Sen. Perata expects that Congress, now led by Democrats, will be receptive to this objective and willing to push the Bush administration for these changes.

10. Who supports the proposal?

Sen. Perata has just begun circulating the proposal. There's something in it for everyone to like, and for everyone to dislike. What we know is that nothing will get done if everyone gets everything they want. This is an honest effort to find a reasonable and practical starting point. It provides the basic framework for a comprehensive solution that can be hammered out by the Legislature and the Governor, if there is the political will and leadership to do it.

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