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GOVERNOR'S HEALTH PROPOSAL RAISES A NUMBER OF QUESTIONS

In January, the Governor outlined a wide-ranging proposal that aims to cover nearly all of the state's uninsured. The proposal would require individuals to carry a minimum level of health coverage; expand public health insurance programs; subsidize coverage for certain low-income Californians; and impose fees on employers that do not offer their workers health coverage, as well as on hospitals and physicians. This *Budget Brief* outlines key questions raised by the Governor's health coverage plan.

The Governor's proposal represents a major change to how Californians receive their health coverage. The proposal would expand enrollment in public programs and add a new purchasing pool where low-income individuals without job-based or public coverage could purchase subsidized health coverage. The result of these changes would be to reduce the share of the state's population that is uninsured and the share of the insured population that has job-based coverage, while increasing the share with coverage through public programs or individually purchased coverage, either in the private market or from the subsidy pool. While the Governor's proposal provides a broad framework, many details of his proposal remain unknown. Overarching questions include:

- Does the proposal provide Californians with access to comprehensive, affordable health coverage?
- Are the costs of expanding health coverage appropriately allocated among individuals, employers, health care providers, and the public sector?
- Does the plan build on or move away from the current job-based system of health coverage? Does the plan rely too much or too little on job-based health coverage?

Would the Proposal Provide Comprehensive, Affordable Health Coverage?

The Governor's proposal would subsidize the purchase of health coverage by adults with family incomes between 100 percent and 250 percent of the poverty line. Details of the coverage that would be available, such as copayments and deductibles, have not yet been disclosed; however, available documents state that the coverage would not include dental or vision benefits. These subsidies would be supported, in part, by fees paid by employers that do not provide coverage for their workers. The state would negotiate and purchase coverage from private and, possibly, publicly-administered health plans, on behalf of these adults through a new purchasing pool.

Higher income adults would also be required to carry a minimum level of health coverage, but would not be eligible for a subsidy; parents with incomes above 300 percent of the poverty line would have to pay the full cost of health coverage for themselves and their children. Individuals would be required to purchase coverage with a deductible of up to $5,000 and maximum out-of-pocket costs of $7,500 for an individual and $10,000 for a family. Individuals would have to pay most costs up to the deductible, after which point the health plan would begin to pay a share of costs. The Administration has indicated that preventive services would be exempt from the deductible; however, it is not clear what services would be considered preventive.

Questions

- Should California require individuals to carry health coverage, even if there is no affordable coverage available?
- Would the fees paid by health care providers and employers generate sufficient funds to provide meaningful subsidies for adults at or below 250 percent of the poverty line – $25,525 for a single individual or $42,925 for adults in a

family of three – to be able to afford coverage?
- Can adults with incomes above 250 percent of the poverty line afford to purchase health coverage for themselves? Can parents with incomes above 300 percent of the poverty line – $51,510 for a family of three – afford the cost of full family health coverage?
- Does the proposal adequately address workers who are temporarily unemployed? Would, for example, a subsidy be available to help workers purchase continued coverage through the plan offered by their previous employer?
- Should subsidies be designed to reflect differences in the cost of living throughout the state?
- What out-of-pocket costs – such as copayments and deductibles – would individuals who purchase subsidized coverage be required to pay?
- Would the subsidized and high-deductible health coverage provide people who have chronic illnesses or other high-cost conditions sufficient protection from high out-of-pocket costs? Should subsidies be designed to reflect differences in the cost of living throughout the state?
- What package of benefits and benefit limits would be offered by the subsidized purchasing pool?
- Could Californians with incomes above 250 percent of the poverty line buy comprehensive health coverage through the purchasing pool?
- What services would be covered on a "first dollar" basis (i.e., not be subject to a deductible) because they are considered preventive? Is the definition of preventive services consistent with the Governor's goals of wellness and prevention?

Would Individuals Face Disproportionate Risks?

The Governor argues that his proposal relies on "shared responsibility" among individuals, hospitals, physicians, employers, insurance companies, and public programs. The proposal imposes fees on hospitals, physicians, and employers that clearly limit how much they would pay. In contrast, there is no cap on how much individuals with incomes above 250 percent of the poverty line would be required to pay to meet the individual mandate, and there is no cap on total premium and out-of-pocket costs for adults who purchase subsidized coverage.

Questions

- Does the requirement to carry health coverage shift too much financial risk to individuals by not limiting the amount they would be required to pay?
- Does the plan appropriately allocate costs among individuals, employers, health care providers, and the state?

Is There Enough Money in the Plan to Make It Work?

The Governor outlines a $12.1 billion funding plan to support his proposal, including $3.7 billion in new federal funds and $1.0 billion from fees on employers that do not offer coverage to their workers. However, it is not clear that the plan would raise enough funding to support the plan's goals. For example, it is not clear whether the fees paid by employers would generate enough revenues to make meaningful coverage affordable to those who qualify for subsidies.

Questions

- Does the Governor's proposal raise enough funding to accomplish his goal of near universal coverage?
- Is the 4 percent fee the "right" level to support the Governor's proposal and "level the playing field" between employers that provide health coverage and those that do not?
- Would the level of the proposed employer fee be high enough to discourage employers from dropping coverage?
- Would the proposed funding sources keep pace with rising health costs in the future?
- How much of the $3.7 billion in new federal funds would come from federal State Children's Health Insurance Program (SCHIP) funding? Existing SCHIP funding, as well as the President's proposed funding level, falls far short of what is needed to support children currently eligible for the Healthy Families Program, much less expanded coverage.
- Would the plan "reimburse" the General Fund for income tax revenues lost due to the expansion of Section 125 plans, which allow workers to use pre-tax dollars to purchase health coverage?
- Could the state implement the plan under existing federal law? What agreements would the state need to reach or change with the federal government in order to implement the plan?
- Would physicians in all settings (for example, public hospitals and community clinics) be required to pay the proposed 2 percent fee on doctors? Would any other providers besides hospitals and physicians be required to pay a fee?

Should Some Medi-Cal Recipients Lose Existing Benefits?

The Governor's proposal shifts hundreds of thousands of adults and children out of the Medi-Cal Program. Children currently enrolled in Medi-Cal who have incomes above the poverty line would be moved into Healthy Families – which charges premiums and copayments and provides a narrower set of benefits – in order to put all children with similar incomes in the same program, regardless of their age. While these children would receive Healthy Families benefits, the state would use federal Medicaid dollars to support their coverage. Adults with incomes above the poverty line who lose Medi-Cal coverage would have to purchase subsidized coverage – which would not provide dental and other benefits covered by Medi-Cal – and these adults would face the affordability issues raised above.

Questions

- Should adults currently covered by Medi-Cal be required to buy subsidized coverage, with potentially higher out-of-pockets costs and no dental benefits?
- How would the state guarantee that it will provide screening and treatment required under federal law for children currently in Medi-Cal who would move into Healthy Families?
- Do the benefits of streamlining children's eligibility – by moving certain children from Medi-Cal to Healthy Families – outweigh the higher costs families would have to pay for premiums and copayments?

How Would the Requirement That Employers Offer Coverage Work?

The Governor proposes to require employers with 10 or more workers to offer health coverage or pay a 4 percent payroll fee. Administration officials have clarified that the proposal would require employers with 10 or more workers to spend at least 4 percent of payroll on employee health benefits or pay a fee. It is unclear how the requirement would work in practice.

Questions

- Could employers fulfill the requirement by providing coverage to some workers while not providing coverage to others?
- Would the spending requirement apply to wages paid to individual employees or to an employer's total payroll?
- Would employers that provide some health benefits, but spend less than the 4 percent threshold, have to pay the difference between what they pay and 4 percent or would they be required to pay the full 4 percent fee?
- Would some employers that currently spend more than 4 percent of payroll on health benefits reduce their spending to the minimum required by the Governor's proposal?

How Would the Requirement for Individuals to Carry Health Coverage Be Enforced?

The Governor's proposal would require individuals without another source of health coverage to purchase coverage for themselves and any uninsured family members. The Governor has indicated that enforcement of the individual mandate would be administered through the state's tax system, but the proposal does not specify a penalty for failure to carry coverage.

Questions

- How would the requirement to carry health coverage be enforced?
- What would be the penalty for not carrying health coverage?
- Would the use of the tax system to enforce the requirement encourage tax evasion?

How Would the Proposed Insurance Market Reforms Work?

The Governor's proposal aims to make several changes to the health insurance market. The Governor would require health insurance companies to provide coverage to all who apply, set limits on how much companies can charge for coverage, and require insurance companies and health plans to spend at least 85 percent of premium dollars on patient care. However, it is unclear how the proposed changes would work.

Questions

- How would the limits on how much health insurance companies could charge be determined and enforced?
- Would these limits ensure that those who cannot currently buy coverage due to pre-existing conditions would be able to afford comprehensive coverage?
- How would "patient care" be defined for purposes of the new spending requirement on insurance companies?
- How would the patient care requirement be enforced?

David Carroll prepared this Budget Brief. The California Budget Project (CBP) was founded in 1994 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. General operating support for the CBP is provided by foundation grants, individual donations, and subscriptions. Please visit the CBP's website at www.cbp.org.