



California Health Care Reform: From comprehensive reform to the search for “free” reform

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2007 - 08: From comprehensive reform to the search for “free” reform

2009: Pressure points

Policy challenges for comprehensive reform

Treating the disease instead of the symptoms

2007: Comprehensive Reform Framework in CA

- Study groups: Nurse practitioner scope-of practice, disease management
- Transparency Commission
- E-prescribing mandate
- Healthy action incentives
- Personal health records in public programs



- Guaranteed issue
- Prohibition on risk rating
- Prohibition on rescission
- Minimum benefit packages
- Public insurer competing in private market
- 85% loss ratio requirement
- Extending small group rules to mid-sized firms
- Purchasing pools
- Individual mandate with subsidies
- Employer “pay or play”
- Medi-Cal, Healthy Families expansions
- Tax credit for individuals
- Hospital tax, rate increases
- Transfer of county uncompensated care funding
- Tobacco tax

2008: The Search for “Free” Reform with Little State Costs

- Transparency Commission



- *New:* High risk pool assessment

- Prohibition on rescission
- Minimum benefit packages (benefit mandates, individual market five classes of products)
- 85% loss ratio requirement
- *New:* Balance Billing

2008: The Search for “Free” Reform with Little State Costs

Impact of key legislation considered in 2008:

- 85% Medical Loss Ratio requirement (SB 1440) would have:
 - Driven smaller carriers out of CA market by 2011
 - Encouraged health insurers to develop higher-priced products
 - Discouraged insurers from participating in the Individual and Small Group markets
 - Reduced health plan spending on “good” administrative costs, such as Health Information Technology
 - Placed pressure on distribution cost structure
 - Reporting MLR by product will create anti-competitive environment
- Rescission Legislation (AB 1945) would have required plans to assume all applicants are not being truthful on the application, resulting in more denials and delays for obtaining coverage
- Individual market five classes of products legislation (SB 1522) would have increased premiums

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2009: Pressure points

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Remaining health care policy issues where pressure exists for reform that require substantial state funds

- 5 million Uninsured Californians
- Medi-Cal rates

Pressure points that do not necessarily require substantial state funds

- Cost of private coverage increasing 2-3 times rate of inflation
- Suboptimal quality in the delivery system
- Individual market (access, underwriting, rescissions, etc.)
- Balance billing
- High-profile benefit mandates (autism, etc.)

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2009: Pressure points

Policy challenges for comprehensive reform

1. Funding and Medi-Cal rates

2. Market reforms via individual mandate

Treating the disease instead of the symptoms

Challenges for comprehensive reform: Funding and Medi-Cal rates

**Current state revenues cannot likely support a sustainable
Medi-Cal managed care model**



How can California draw down more federal funds?

- Broad-based funding alternatives
- Taxing health care to pay for health care (x2)

Challenges for comprehensive reform: Market reforms via individual mandate

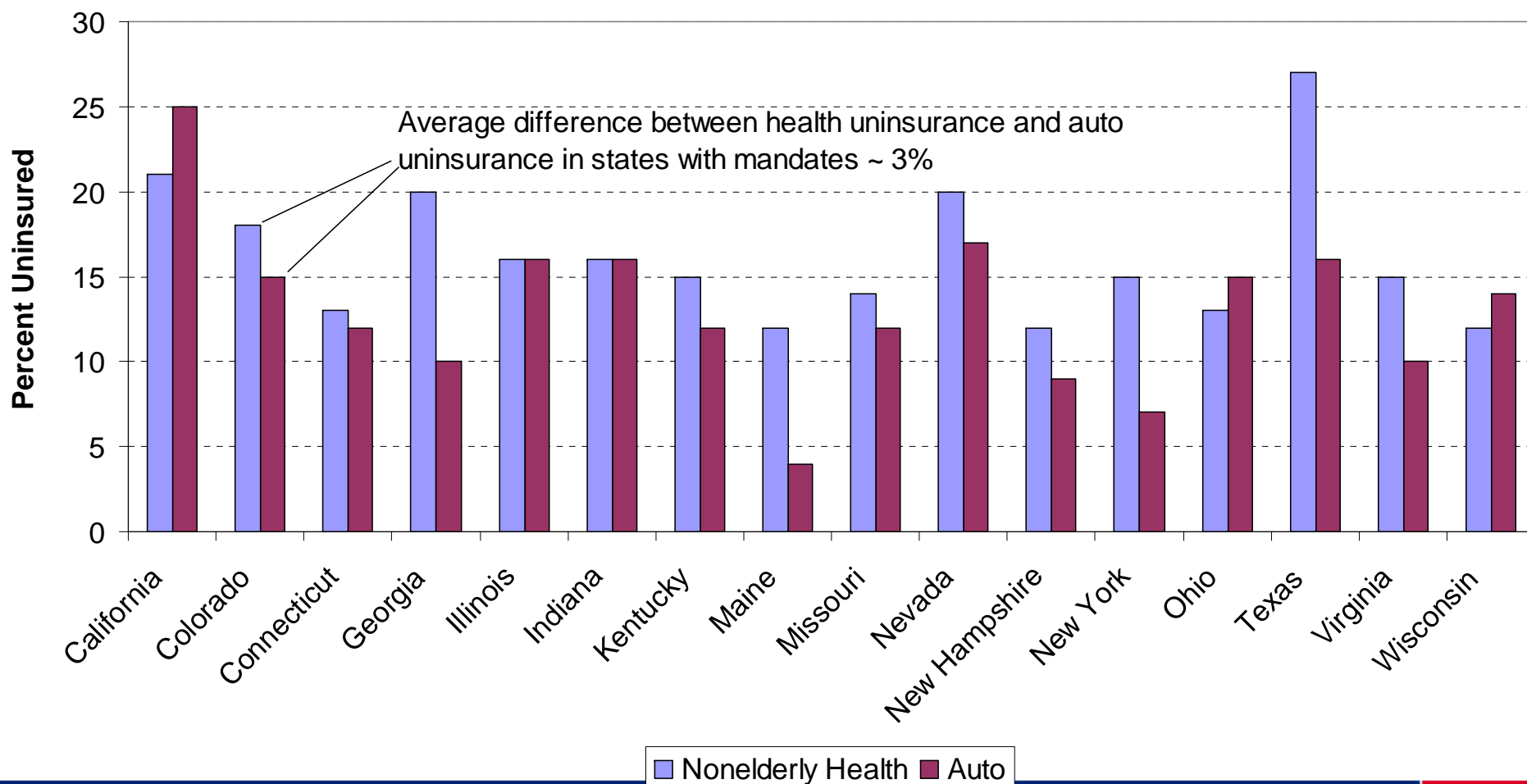
Market reforms popular with policymakers, such as guarantee issue and eliminating risk rating require an individual mandate

Can the state establish an enforceable, effective mandate that captures a critical mass of individuals?

- Even if the mandate is 100% effective, guarantee issue will drive rates higher in the individual market

Challenges for comprehensive reform: Market reforms via individual mandate

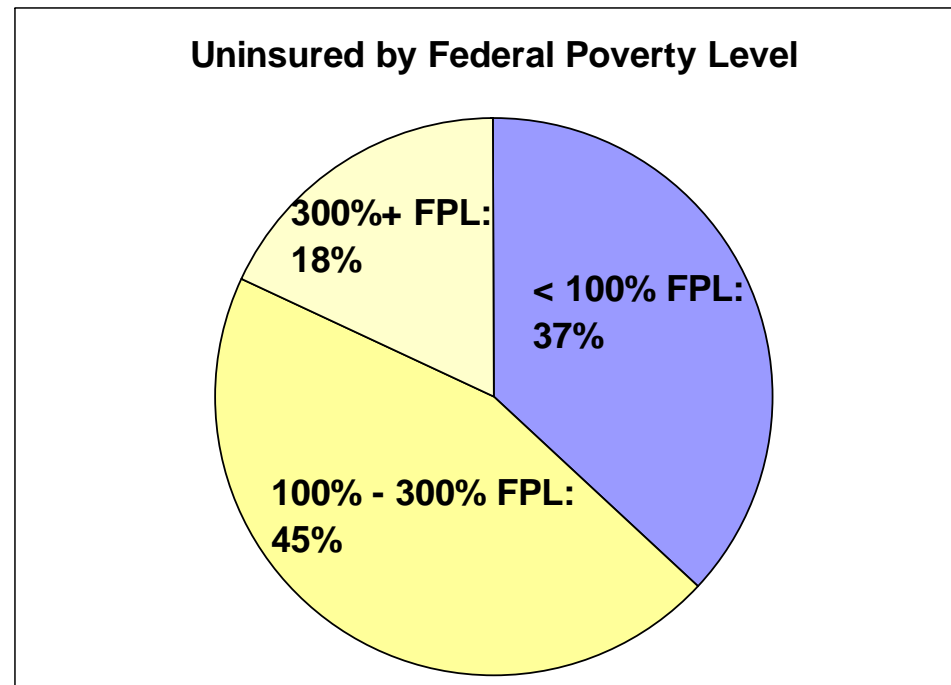
Health vs. Auto Uninsurance in WLP Key States



Challenges for comprehensive reform: Market reforms via individual mandate

Why is it difficult to make people buy health insurance?

1. About 80% of the uninsured have family incomes below 300% of the Federal Poverty Level and likely need financial assistance



2. Only 14 million Californians file state income tax returns, challenging enforcement
3. Even with financial assistance and a modest penalty, many healthy will choose not buy coverage if they can wait until they are sick to get it

Challenges for comprehensive reform: Market reforms via individual mandate

Why is it difficult to make people buy health insurance even with a mandate and subsidies?

Don't need it/care



Challenges for comprehensive reform: Market reforms via individual mandate

Why is it difficult to make people buy health insurance even with a mandate and subsidies?

Don't want it



Challenges for comprehensive reform: Market reforms via individual mandate

Why is it difficult to make people buy health insurance even with a mandate and subsidies?

Bite me.



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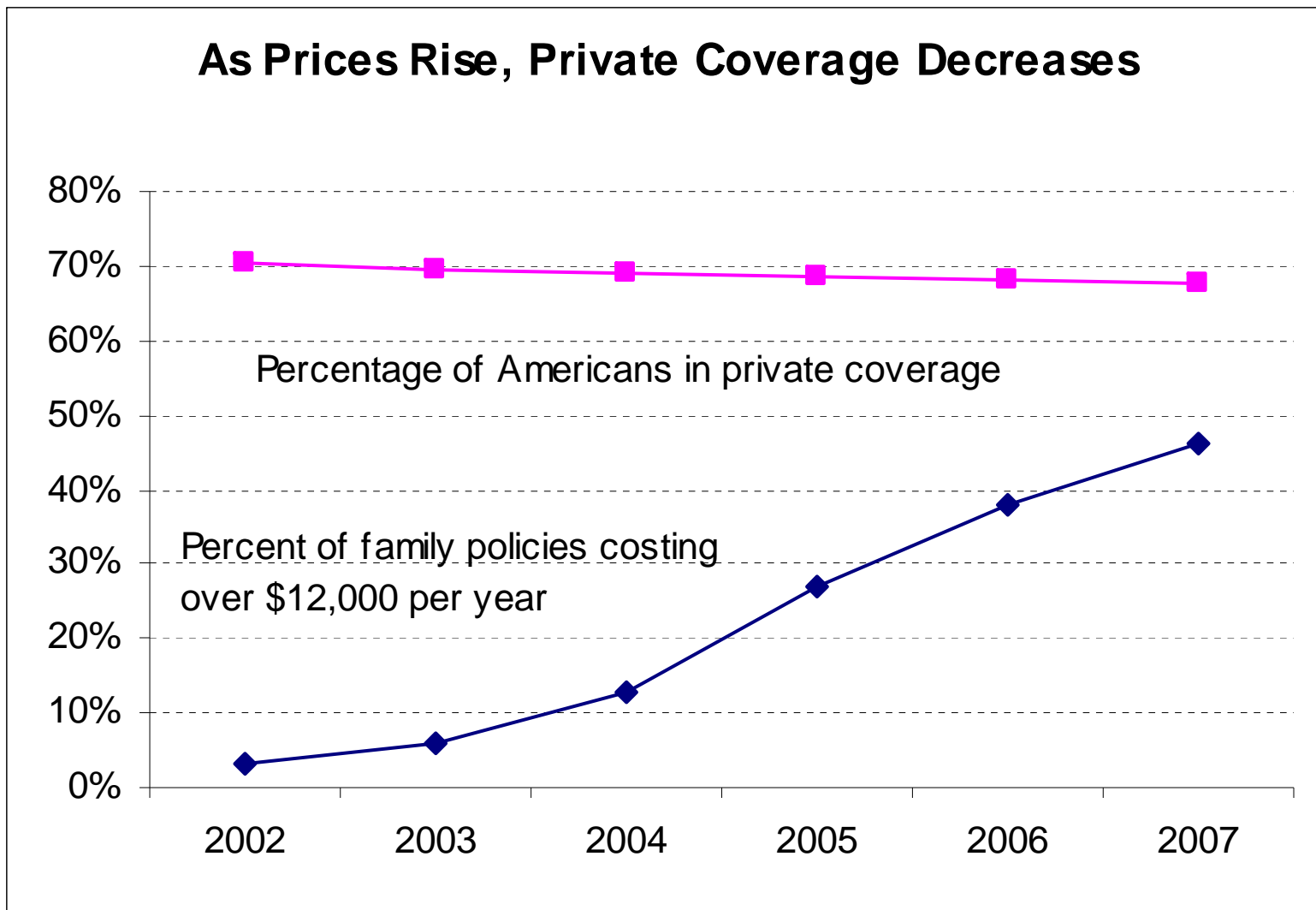
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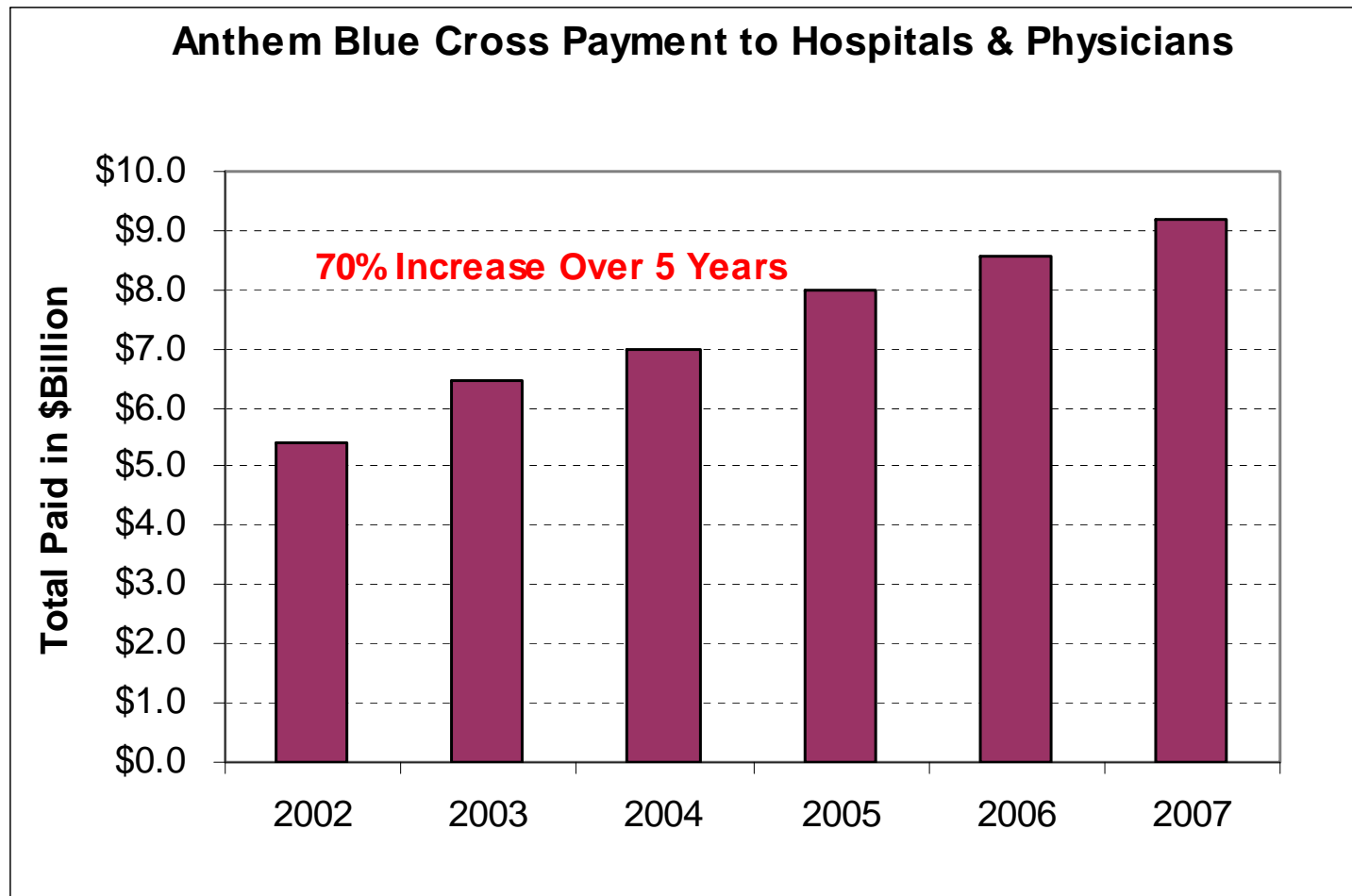
Health Care Reform: Treating the disease, not the symptoms

As Prices Rise, Private Coverage Decreases



Health Care Reform: Treating the disease, not the symptoms

The problems in health care are driven by costs



Health Care Reform: Treating the disease, not the symptoms

Are we getting what we pay for in the delivery system?

- Medical errors and drug safety events contribute to up to 2.4 million extra hospital days per year, 32,000 annual deaths, and \$9 billion in costs annually
- Additionally, an estimated 1.5 million preventable adverse drug events occur each year
- Geographic areas with higher costs often exhibit lower quality
- Children get recommended care from their doctors *less than half* of the time
- Adults fail to get recommended care nearly half the time
- Even though the average day in a hospital now costs about \$10,000, nearly the full price of an annual family premium, providers are often demanding rate increases in excess of 10% per year

Health Care Reform: Treating the disease, not the symptoms

The Cost Crisis:

How would CA's 2007 reform framework impacted average premium?

Elements <i>Increasing</i> Premium Costs	Elements <i>Decreasing</i> Premium Costs
<ul style="list-style-type: none">• Minimum benefit package• Guaranteed issue• Prohibition on risk rating• Limitation on age rating• 85% loss ratio requirement• Extending small group rules to mid-sized firms	<ul style="list-style-type: none">• Medi-Cal rate increase• Provider quality transparency• E-Prescribing• Healthy action incentives

Health Care Reform: Treating the disease, not the symptoms

The debate needs to re-focus on health delivery system reform in addition to insurance market reform

We must first focus on addressing the underlying cost drivers. Only by doing that can we sustainable solutions to improve access

- E-prescribing
- Establishing the infrastructure for electronic health records
- Pay-for-performance in public programs
- Nonpayment for preventable adverse events
- Medical home initiatives
- Expanded use of provider cost-efficiency metrics