



**Date:** January 11, 2008

**To:** State Legislation Committee Members

**From:** *for* Patrick H. West, City Manager *Patrick H. West*

**Subject:** **Summary of The Health Care Security & Cost Reduction Act (AB X1 1)**

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On December 17, 2007, the California State Assembly passed AB X1 1, The Health Care Security and Cost Reduction Act, authored by Assembly Speaker Fabian Nuñez and supported by the Governor. The bill was approved with a 46-31 vote along party lines, with Democrats voting in support and Republicans in opposition. AB X1 1 is scheduled to be heard in the Senate Health Committee on January 16, 2008.

If the Senate passes and the Governor signs the bill, voters would be asked to approve a separate financing plan on the November 2008 ballot. On December 28, 2007, Governor Schwarzenegger and Assembly Speaker Nuñez jointly filed an initiative measure to fund this new health care program with the Attorney General's office.

AB X1 1 is an omnibus 210-page bill, which contains many provisions with varying effective dates. Full implementation will not occur until July 1, 2010. Should a court find any individual provision of this act to be invalid, the entire act would become inoperative.

#### Overview

The Health Care Security and Cost Reduction Act would:

- Require that all Californians carry health coverage, with certain exceptions (individual mandate).
- Guarantee that no Californian is turned away from buying insurance based on their age or medical history (guarantee issue).
- Spread responsibility across individuals, government, hospitals and employers (shared responsibility).
- Provide tax credits and subsidies to individuals and families, thereby making coverage more affordable.
- Increase Medi-Cal reimbursement rates to help keep hospitals and emergency rooms open.
- Allow individuals to choose their health coverage and keep their current insurance.

#### Individual Mandate

The Managed Risk Medical Insurance Board (MRMIB) would be required to define the minimum level of health coverage. Exemptions from this mandate will be granted:

- If a family's income is at or below 250 percent of the federal poverty line and the cost of buying minimum coverage is at least 5 percent of their income.
- If MRMIB determines that the minimum coverage is not affordable.
- If MRMIB grants a family a hardship exemption.

#### Guaranteed Issue

Health insurers would be required to offer coverage to individuals and families, regardless of pre-existing conditions or health usage. The bill would also limit insurers' ability to base rates on health status and would require that insurers spend at least 85 percent of premiums on patient care.

#### Expanded Coverage

This bill would expand public coverage for children with incomes up to 300 percent of the federal poverty line, or \$51,510 for a family of three, regardless of immigration status. Coverage would be provided through Medi-Cal and the Healthy Families program.

Public health coverage would also be expanded for adults with incomes up to 250 percent of the poverty line, or \$42,925 for a family of three. This coverage would not be available for workers without children whose employers help pay for job-based coverage.

This expanded coverage would be provided by:

- Public hospital networks for very low-income adults without children—those with incomes below the poverty line (\$10,210 for an individual).
- The California Cooperative Health Insurance Purchasing Pool (Cal-CHIPP) would be available to Californians whose incomes are higher than allowed for Medi-Cal. This new pool would also cover the families of workers whose employers pay a payroll fee instead of providing coverage to their workers.
  - Families and individuals with incomes below 150 percent of the poverty line would not pay premiums or copayments.
  - Families with incomes between 150 percent and 250 percent of the poverty line would pay up to 5 percent of their income for premiums.

#### Tax Credits

Families who do not have access to job-based coverage and have adjusted gross incomes of between 250 percent and 400 percent of the poverty line would be eligible for a tax credit if they purchase coverage through the new purchasing pool. The amount of the credit would equal a portion of a family's health care premiums that exceed 5.5 percent of a family's adjusted gross income. Workers

who are eligible for job-based coverage or whose spouse is eligible for job-based coverage could not claim the credit.

Employers would be required to offer employees participation in a Section 125 plan, which would allow workers to use pre-tax dollars to purchase health coverage for themselves and their families.

This bill also expresses legislative intent to enact future legislation that would provide a health care tax credit for Californians between the ages of 50 and 64, subject to available resources.

#### Containing Health Care Costs

A variety of strategies would be used to constrain the rising costs of health care including:

- A new diabetes prevention and management program
- Bulk purchasing of prescription drugs for the purchasing pool
- The use of electronic submissions of prescriptions
- Community grants aimed at promoting active living and healthy eating
- Requiring insurers to offer financial and other incentives to promote prevention and wellness
- Creating a commission responsible for improving the transparency of health care costs and quality data

In addition to these strategies, the Director of Finance would be required to make a finding that sufficient resources are available to support the act for three years before implementation can begin. However, the act does not contain a mechanism for discontinuing or reducing the program if funding becomes insufficient in future years.

#### Proposed Financing Plan

The proposed financing plan for The Health Care Security and Cost Reduction Act is as follows:

Employer Fee of 1 to 6.5 Percent	\$2.6 billion
Employee/Individual Contributions	\$2.1 billion
County & Other Funds	\$1.0 billion
Federal Funding (Medicaid/S-CHIP)	\$4.6 billion
Hospital Fee of 4 percent	\$2.3 billion
Tobacco Tax Revenues (based on \$2 per pack tax--Note that initiative is at \$1.75 per pack)	\$1.5 billion
<b>Total</b>	<b>\$14.1 billion</b>

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These fees and tax increases will be placed on the November 2008 ballot. If the financing is not approved, the act will not take effect.

Attached please find an informational fact sheet on the bill provided by the Governor's office. For more information, please contact Tom Modica, Manager of Government Affairs, at 8-5091.

cc: Mayor and Members of the City Council  
Suzanne Frick, Assistant City Manager  
Reginald Harrison, Deputy City Manager  
Ron Arias, Director of Health and Human Services  
Tom Modica, Manager of Government Affairs  
Jyl Marden, City Council Liaison  
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Attachment  
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# **THE HEALTH CARE SECURITY AND COST REDUCTION ACT**

## ***AFFORDABLE AND ACCESSIBLE HEALTH COVERAGE FOR CALIFORNIA***

### **The Health Care Security and Cost Reduction Act ensures that every Californian has access to health coverage.**

Assembly Bill X1 1, the Health Care Security and Cost Reduction Act:

- Requires that all Californians take responsibility for their health coverage (individual mandate).
- Guarantees that no Californian will be turned away from buying insurance based on their age or medical history (guarantee issue).
- Spreads responsibility across individuals, government, hospitals and employers (shared responsibility).
- Makes coverage more affordable for individuals and families through tax credits and subsidies.
- Helps keep hospitals and emergency rooms open by increasing Medi-Cal reimbursement rates.
- Allows individuals to choose their health coverage and keep their current insurance.

### **The Health Care Security and Cost Reduction Act ensures that every Californian takes responsibility for their health care.**

This legislation establishes a variety of options to achieve this: It provides assistance to low- and middle-income families; creates a purchasing pool that allows individuals to benefit from affordable rates; expands eligibility for programs such as Medi-Cal and the Healthy Families Program; and increases access to community clinics and county-based health care programs; and other measures.

### **Everyone who already has insurance can keep it.**

No one will be forced to change insurance plans under the Health Care Security and Cost Reduction Act. Californians who currently have health insurance will be able to keep the insurance they have, and will have more options should they choose to change.

### **The Health Care Security and Cost Reduction Act lowers costs and expands choice.**

Like the current health care system, the Health Care Security and Cost Reduction Act is market-based and competitive. The fundamental difference is that now insured Californians will no longer be forced to cover the uninsured and all Californians will be able to buy insurance.

### **The Health Care Security and Cost Reduction Act guarantees that everyone can get insurance.**

Under this legislation, Californians who want to buy insurance can, regardless of their age or medical history.

- When fully implemented, insurers will only be able to vary rates based on age, family size and geography. New rating rules will be phased in over a four-year period. During this time, limited variations based on medical history will be allowed and reforms will limit how much older people are charged.
- The plan also brings greater transparency to the insurance market by requiring insurers to spend at least 85 percent of every premium dollar on patient care.

### **The Health Care Security and Cost Reduction Act puts affordable coverage within everyone's reach.**

This legislation increases affordability for everyone and controls rising medical costs by expanding coverage, improving access to preventive care and reducing costly, unnecessary emergency room visits. It:

- **Provides affordable coverage.** The state will create a new purchasing pool that will provide access to subsidized, affordable coverage to individuals and families with incomes between 100-250 percent of the poverty level. As a result, low-and-middle income people will be able to buy an affordable health insurance plan. The Act limits how much Californians will contribute toward the cost of their premium based on income.
  - 100-150 percent of poverty: No contribution
  - 151-250 percent of poverty: Premium limited to no more than 5 percent of income
- **Protects middle-income Californians.** The Act protects working families with higher incomes as well.
  - *It provides a tax credit:* Those earning between 250-400 percent of poverty will receive a tax credit if the cost of buying insurance exceeds 5.5 percent of income. The Act also calls for an additional tax credit to make health care more affordable for early retirees.

- *It helps people pay their premiums:* Anyone with an income above 250 percent of poverty who works for an employer who doesn't offer coverage will get a contribution toward their premium.
- **Expands Medi-Cal.** This legislation makes Medi-Cal available to childless adults with incomes up to 100 percent of the poverty level.
- **Expands the Healthy Families Program.** The legislation expands Medi-Cal and the Healthy Families Program to provide no/low-cost comprehensive health coverage to all children with family incomes below 300 percent of the federal poverty level. This means that more low-income children will be able to go to the doctor instead of going to an emergency room.
- **Provides a strong community clinic safety net.** The Act increases funding for the Early Access to Primary Care Program to provide cost-effective clinic services to low-income Californians who aren't eligible for other state subsidized coverage.
- **Allows affordability and limited hardship exemptions.** The Act recognizes that some lower income people who aren't eligible for state subsidized coverage (coverage through the pool, Healthy Families, Medi-Cal) may not be able to afford to buy insurance.
  - So, to ensure that these people are getting primary care but not misusing our emergency rooms, the Act provides them with low-cost ways to get care through clinics and county-based services. Specifically, the legislation:
    - Provides an exemption to people with incomes below 250 percent of poverty, whose cost for the required coverage exceeds 5 percent of their income, to opt out of the individual requirement to purchase insurance.
    - Allows Managed Risk Medical Insurance Board (MRMIB) to grant limited temporary or permanent exemptions to people who demonstrate that they are facing significant financial hardship or otherwise cannot afford coverage.

**The Health Care Security and Cost Reduction Act gives working Californians and employers tax breaks.**

The legislation requires employers to let employees pay their health insurance premiums on a pre-tax basis through IRS Code Section 125 plans. This will bring significant tax savings to middle-income Californians and their employers. By paying for health care benefits on a pre-tax basis, employees and employers will save approximately \$2 billion dollars in state and federal income taxes and federal payroll taxes. The expected cost to an employer to establish a Section 125 plans is \$200 or less.

**The Health Care Security and Cost Reduction Act protects patients, providers and the state budget.**

- Requires that insurers spend no less than 85 cents of every premium dollar on your medical care.
- Increases access and promotes affordable care by reforming regulations, expanding the use of nurse practitioners and physician assistants, enhancing retail clinics, and other measures.
- Promotes the use of health information technology and requires that all health providers have the capacity to e-prescribe by 2012.
- Promotes quality improvements and increases access to price and quality information through a significant transparency initiative and pay-for-performance efforts.
- Reduces pressure on California's General Fund by securing new federal funds that will raise Medi-Cal reimbursements to doctors and hospitals.

**The Health Care Security and Cost Reduction Act promotes prevention, wellness and personal responsibility to keep Californians healthier and costs lower.**

The legislation rewards healthy choices and tackles chronic conditions, like obesity and diabetes, to promote better health and contain costs. AB X1 1:

- Structures health benefits to promote prevention, wellness and healthy lifestyles.
- Requires health plans and insurers to offer benefits packages that reward individuals who meet certain health goals.
- Creates diabetes, obesity and smoking cessation initiatives to improve the lives of Californians and keep down medical costs.

### Graph 1: How California Will Pay For Health Care Reform

California voters will be asked to approve how the AB X1 1 is financed on the November 2008 ballot.

Federal Funding	\$4.6 billion
Individuals*	\$2.1 billion
4 Percent Hospital Fee	\$2.3 billion
Employer Contribution	\$2.6 billion
Tobacco Revenues	\$1.5 billion
County Fund Shift	\$1 billion

\* The \$2.1 billion from individuals does not represent any new dollars from individuals paying for their insurance now.

### Graph 2: How The Federal Poverty Level Translates To Earnings

	Annual Income	Percent of Federal Poverty Level	Monthly Income	5 Percent of Monthly Income	5.5 Percent of Monthly Income
<b>Individual</b>	\$10,210	100%	\$851	\$43	\$47
	\$15,315	150%	\$1,276	\$64	\$70
	\$20,420	200%	\$1,702	\$85	\$94
	\$25,525	250%	\$2,127	\$106	\$117
	\$30,630	300%	\$2,553	\$128	\$140
	\$35,735	350%	\$2,978	\$149	\$164
	\$40,840	400%	\$3,403	\$170	\$187
<b>Couple</b>	\$13,690	100%	\$1,141	\$57	\$63
	\$20,535	150%	\$1,711	\$86	\$94
	\$27,380	200%	\$2,282	\$114	\$125
	\$34,225	250%	\$2,852	\$143	\$157
	\$41,070	300%	\$3,423	\$171	\$188
	\$47,915	350%	\$3,993	\$200	\$220
	\$54,760	400%	\$4,563	\$228	\$251
<b>Family of Four</b>	\$20,650	100%	\$1,721	\$86	\$95
	\$30,975	150%	\$2,581	\$129	\$142
	\$41,300	200%	\$3,442	\$172	\$189
	\$51,625	250%	\$4,302	\$215	\$237
	\$61,950	300%	\$5,163	\$258	\$284
	\$72,275	350%	\$6,023	\$301	\$331
	\$82,600	400%	\$6,883	\$344	\$379

