City of Long Beach *Memorandum*
Working Together to Serve

Date: November 21, 2007

To: State Legislation Committee Members

From: Patrick H. West, City Manager

Subject: **Summary of the Current Statewide Health Care Proposals**

The following is a detailed summary of the current health care proposals being discussed to address statewide health care reform.

The Health Care Security & Cost Reduction Act (Governor Schwarzenegger) – AB X1 2

In January 2007, Governor Schwarzenegger announced a health care reform proposal which sought to guarantee that every resident was able to purchase insurance (guarantee issue), promote affordable coverage, and require that every Californian carry a minimum level of health care insurance (individual mandate). In early October 2007, the Governor released language for his proposal in bill form, which reflects feedback received by his office resulting from numerous meetings held with stakeholders and legislative leaders.

This new "compromise legislation" maintains the core principles of his initial proposal including universal coverage, affordability, guarantee issue, financing, public hospitals, and minimum benefit levels.

Highlights

Key elements of the Governor's new compromise legislation include:

- Maintaining the requirement that all Californians obtain health care coverage.
- Maintaining guarantee issue by ensuring that all Californians will be able to buy health insurance regardless of their medical history or age.
- Creating a state subsidized pool for low-income individuals that cannot afford the individual mandate.
- Reducing the amount that low- and moderate-income individuals must pay for coverage in the state subsidized pool, limiting premiums based on income, and creating a tax credit for individuals/families between 250-350% of the federal poverty level.
- Requiring employers to offer employees IRS Code Section 125 plans, which give employees the opportunity to treat health insurance premium contributions on a pre-tax basis.
- Phasing in elimination of medical ratings and protecting consumers against significant rate spikes based on their health status by putting parameters on what insurers can charge above or below a standard rate.
- Directing the Secretary of Health and Human Services to establish and adopt the minimum benefit level via the regulatory process. The minimum

benefit level must cover medical, hospital, preventive and prescription drug services, promote access to care, and set minimum benefits at a level where premiums are affordable.

Funding
The Governor's proposal would be funded by:

- Increasing Medi-Cal rates for providers, hospitals, and health plans.
- Requiring that employers who do not offer health care coverage must make a contribution toward the cost of employees health coverage in the state subsidized pool based on a sliding scale fee ranging from 0 to 4 percent based on total payroll.
- Leasing the California Lottery to help pay for health care costs.
- Including $500 million in new funding for public hospitals, in addition to the $1 billion counties and county and UC hospitals will retain for outpatient services and federal Disproportionate Share Hospital funds respectively.

This new proposal removes the previously proposed requirement that doctors contribute towards subsidizing the state purchasing pool for low-income residents. However, doctors would now have additional responsibilities and incentives to care for many newly insured individuals.

Fiscal Analysis
According to a February 2007 study conducted by MIT economist Dr. Jon Gruber, the Governor's health care proposal will provide health insurance for an additional 4.1 million Californians out of the 4.8 million uninsured Californians at any given time. (According to a recent U.S. Census Bureau report, approximately 6.7 million Californians are uninsured.) The study also states that the reforms will have little impact on how many employers cover their workers. Legislative staff have not yet completed their analysis of the bill, thus there is no current estimate on how much this bill may cost to implement.

Major Supporters
According to a June 2007 statewide survey conducted by the Public Policy Institute of California (PPIC), 72% of Californians support the Governor's health care proposal. While many groups have indicated their support for the Governor's plan, unconditional support is difficult because the proposal is still the subject of intense negotiation and sufficient change. Many local chambers of commerce, including the Long Beach Chamber, LA Chamber and San-Jose/Silicon Valley Chamber, are supporting the Governor's approach.

Current Status
This bill is currently being considered in the First Extraordinary Session called by the Governor to address comprehensive health care reform. The bill ABX1 2 is

currently without an author, and has been referred to the Assembly Health Committee. The Governor has requested that his bill not be taken up for a vote in committee, thereby making it available to be used as a benchmark by which other proposals will be compared against in negotiations, which are currently ongoing in the Legislature.

SB 840: The California Universal Healthcare Act (State Senator Kuehl)

The California Universal Healthcare Act seeks to provide, affordable healthcare to all Californians, provide every Californian the right to choose his or her own physician and control health cost inflation. The Act will create the California Healthcare System (CHS), a single-payer health care system, administered by the California Healthcare Agency, to provide health insurance coverage to all California residents. This Act will also prohibit any health care service plan or health insurance policy, other than CHS, from being sold in California for services provided by CHS. Thus, this bill would create one universal health care system run by the State California. The bill's author contends that under the current fractured system of health care, 20 to 30% of the health care dollar is spent on administration (excluding profit).

This bill will become operative when the Secretary of Health and Human Services determines the Healthcare Fund has sufficient revenues to begin implementation, and CHS will be required to be operative within two years of the operative date of this bill. The California Healthcare Premium Commission (CHPC) will become operative on January 1, 2008.

Highlights

Key elements of the Act include:

- Establishing a Commissioner, appointed by the Governor and confirmed by the Senate, to serve as the chief officer of CHS and to administer all aspects of the California Healthcare Agency.
- Establishing up to ten health care regions, each with its own regional planning director and 13-member regional health planning board.
- Creating a systematic approach to measuring and managing care quality.
- Ensuring that state purchasing power achieves the lowest possible prices for CHS without adversely affecting needed pharmaceutical research.
- Assessing projected revenues and expenditures to assure the financial solvency of the system.
- Ensuring that all income earners and all employers contribute a premium amount that is affordable and consistent with existing funding sources for health care.
- Maintaining the current ratio for aggregate health care contributions among the traditional health care funding sources, including employers, individuals, government, and other sources.

Regarding eligibility and benefits:

- All California residents would be eligible for CHS, with residency based on physical presence in the state with the intent to reside.
- CHS would also provide coverage to state residents who are temporarily out of state, and would bill visitors to the state for health care services received under CHS.
- Eligible residents would receive services from any willing professional CHS health care provider.
- Covered benefits would include all care determined to be medically appropriate by the consumer's health care provider.
- Copayments and deductibles would be prohibited for preventive care.
- State residents in a family whose income does not exceed 200% of the federal poverty level would be eligible for no-cost Medi-Cal.

Funding
Once enacted, the transition to CHS would be funded from a loan from the General Fund and from other sources (including private) identified by the Commissioner. Funds currently held in reserve by state, county, and city health programs, and federal funds for health care held in reserve in federal trust accounts would be transferred to the state health care reserve account when the state assumes financial responsibility for health care under this bill that is currently provided by those programs. The Commissioner would also establish formulas for equitable contributions to CHS from counties and other local government agencies.

Additional funding requirements under this bill include:

- When the state budget has not been enacted by June 30th of any year, funds in the reserve account must be used to implement this bill.
- The Commissioner must limit the growth of spending on a statewide and regional basis by reference to average growth in state domestic product across multiple years, population growth, and other factors.
- Limits administrative costs on a system-wide basis to 10 percent of system costs within five years of completing the transition to the CHS and to 5 percent of system costs within 10 years.

Fiscal Analysis
An actuarial analysis of a prior version of this legislation found that the total health spending for California residents under the current system was about $184.2 billion for 2006, and that the single-payer program would achieve universal coverage while reducing total spending in the state by a net $7.9 billion. These savings would be realized by reducing administrative costs and increasing

savings from the bulk purchase of prescription drugs and durable medical equipment. These savings would amount to an estimated $20 billion in administrative costs, and an estimated $5.2 billion in bulk purchasing savings.

This Act would constrain growth in future spending to match growth in the state gross domestic product, which is expected to be about 5.14 percent annually through 2015. By 2015, health care spending under the single payer program would be about $68.9 billion less than currently projected ($343.6 billion). Total savings over the 2006 through 2015 period would be $343.6 billion. Savings to state and local governments over this ten-year period would be about $43.8 billion.

Major Supporters
According to the legislative bill analysis, key supporters of this bill include the California Nurses Association, the California Federation of Teachers, the California Public Interest Research Group, the California Senior Legislature – State of California, and the League of Women Voters, Long Beach Area.

Current Status
SB 840 was amended on July 10, 2007 and re-referred to the Assembly Committee on Appropriations. This bill is now a two-year bill, and would be eligible for consideration next year. A similar bill passed the Legislature last year, but was vetoed by the Governor. As this bill does not have the support of the Governor or Legislative Leadership, it is not being considered during the current Special Session.

ABX1 1: The California Health Care Reform and Cost Control Act (Assembly Speaker Nuñez & Senate President Pro Tem Perata)
On November 6, 2007, Assembly Speaker Nuñez and Senate President Pro Tem Perata announced a new Democratic health care plan entitled "The California Health Care Reform and Cost Control Act" (ABX1 1). This new bill includes the core principles of AB 8 (the Democratic plan vetoed by the Governor on October 12, 2007), while meeting the Governor halfway on other key elements of health care reform.

Highlights
Key elements of this new health care plan include:

- Establishing an individual mandate for most Californians, but exempts those who cannot afford to purchase insurance. Affordability is met when the total cost of health insurance is 6.5 percent or less of a family income.
- Covers all children and parents up to 300 percent of the federal poverty line.

- Covers all single adults through Medi-Cal up to 250 percent of the federal poverty line.
- Provides individuals with incomes 250-450 percent of the federal poverty line not eligible for public programs with an advanceable, refundable tax subsidy to help purchase coverage.
- Ensures that no one earning between 0-150 percent of the federal poverty line will be required to pay premiums, co-payments, or deductibles.
- Requires the Managed Risk Medical Insurance Board (MRMIB) to establish the minimum benefits package suitable for coverage in California.
- Contains significant cost-containment measures, including allowing the state to pursue bulk purchasing of pharmaceuticals and requiring transparency from hospitals.

Funding
AB 1 would be financed through a combination of fees and taxes including:

- A $2 per pack increase in the tobacco tax. (The Cigarette Tax Initiative approved by voters in 2006 increased the tax rate per pack of cigarettes to $3.47).
- An employer fee assessed on a sliding scale.
    - Employers with payrolls up to $100,000 would be expected to contribute at least 2 percent of payroll.
    - Employers with payrolls from $100,000 to $250,000 would be expected to contribute at least 4 percent of payroll.
    - Employers with payrolls above $250,000 would be expected to contribute at least 6.5 percent of payroll.
    - Employers would also be expected to offer insurance to part-time employees or contribute to the public purchasing for those employees.
- A hospital fee assessed at 4 percent of revenue.

Major Supporters
According to the legislative analysis, the California Public Interest Research Group supports the bill as stands, while the American Federation of State, County and Municipal Employees, the California Hospital Association, the California Medical Association, Congress of California Seniors, Latino Issues Forum, and Planned Parenthood Affiliates of California are some of the key supporters of the bill <u>if amended</u>.

Current Status
The Assembly Health Committee approved ABX1 1 on November 14, 2007, with Democrats voting in favor and the bill and Republicans voting in opposition. The

Assembly was scheduled to vote on the bill on November 26, 2007, but the date has been moved to December 5 or 6, 2007.

Attached please find a matrix that helps explains the differences between the two plans currently being discussed in the Special Session. For more information, please contact Tom Modica, Manager of Government Affairs, at 8-5091.

cc: Mayor and Members of the City Council
Christine Shippey, Assistant City Manager
Reginald Harrison, Deputy City Manager
Ron Arias, Director of Health and Human Services
Tom Modica, Manager of Government Affairs
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Attachment
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Differences Between Speaker Núñez and Gov. Schwarzenegger Health Care Reform Proposals

	Assembly Speaker Núñez AB 8 (As amended – 9/7/07)	Assembly Speaker Fabian Núñez AB X1X (As Proposed to be Amended on November 8, 2007)	Governor Schwarzenegger Legislative Language
"Pay or Play"	Employers would be required to spend at least 7.5% of payroll on employee health care expenditures or pay an equivalent amount to a state fund. Employers must elect to "pay or play" for their full-time employees, and "pay or play" for their part-time employees.	Sliding scale based on employer payroll. Employers with payrolls at or above $350,000 annually would be required to spend at least 6.5% of payroll on employee health care expenditures or pay an equivalent amount to a state fund. Employers with payrolls below $100,000 would pay % and employers of payroll between $100,000 and $250,000 would pay %. Employers must elect to "pay or play" for their employees with wages above $25,000/year, and "pay or play" for their employees below $25,000 per year.	States legislative intent that the bill be financed contributions from employers, individuals, government and health care providers, and the financial support include employer fees that range from 0% to 4% for employers not expending an equivalent amount for health care services, with employers of 10 or more full-time equivalent employees required to pay 4%.

	Assembly Speaker Núñez AB 8 (As amended – 9/7/07)	Assembly Speaker Fabian Núñez AB X1X (As Proposed to be Amended on November 8, 2007)	Governor Schwarzenegger Legislative Language
Individual Mandate	None. Employees would be required to accept coverage (a "take up" requirement) unless they have other group or public program coverage, or if the cost of coverage meeting specified criteria exceeds 5% of wages paid by their employer.	• All Californians must enroll in and maintain minimum coverage. • The Managed Risk Medical Insurance Board (MRMIB) would define what constitutes minimum coverage. • The minimum health coverage would be required to include the same scope of services as required under the Knox-Keene Act (the body of law regulating health plans in California), plus prescription drugs. • MRMIB would be required to exempt individuals for whom coverage is not affordable, or who have a financial hardship.	• All Californians must enroll in and maintain minimum health coverage. • The Secretary of Health and Human Services Agency determines the minimum health coverage. • The minimum health coverage would be required to include hospital, medical and preventive services.
County Funding Shift to State	None.	States legislative intent that the bill be financed in part by revenues from counties to support the cost of state assumption of covering medically indigent adults that are currently county financial liability.	States legislative intent that the bill be financed by revenue from counties to support the cost of enrolling people otherwise entitled to county-funded care.

	Assembly Speaker Núñez AB 8 (As amended – 9/7/07)	Assembly Speaker Fabian Núñez AB X1X (As Proposed to be Amended on November 8, 2007)	Governor Schwarzenegger Legislative Language
Medi-Cal Coverage Expansion	Expands health plan coverage using Medicaid funds to parents and caretaker relatives with family incomes at or below 300% FPL (at or below $51,510 for a family of 3 in 2007).	Expands coverage to parents and caretaker relatives with family incomes at or below 300% FPL (at or below $51,510 for a family of 3 in 2007) and expands coverage to single adults with incomes less than 250% FPL (at or below $42,925 for a family of 3 in 2007).	Expands coverage to parents and caretaker relatives with family incomes at or below 250% FPL (at or below $42,925 for a family of 3 in 2007) and expands coverage to single adults with incomes less than 250% FPL.
Hospital Fee	None.	Agreed to include on ballot.	States legislative intent that the bill be financed contributions from employers, individuals, government and health care providers, and the financial support include fees paid by hospitals at a rate of 4% of patient revenues.
Leasing the State Lottery	None.	None.	States legislative intent that the bill be financed contributions from employers, individuals, government and health care providers, and the financial support include additional public funds obtained through licensing the State Lottery.
Tobacco Tax Increase	None.	Increases the tax on a package of cigarettes by $2 per pack, and an equivalent amount for other tobacco products.	None.
Tax Credit/Subsidy for Affordability	None.	250-450% FPL	250-350% FPL