Case Studies: The Human Impact of 2010 Health Care Reform

Tuesday, January 19, 2010

ABOUT THIS RESEARCH

In an effort to clarify the specific impacts of the health care legislation in Congress, an analysis was conducted on different people around Colorado. The research and analysis was conducted by the Colorado Center on Law and Policy and the Colorado Consumer Health Initiative for a coalition of non-profits including: Change That Works Colorado, Colorado Public Interest Research Group, ProgressNow Colorado and Service Employees International Union Local 105. It is an unbiased non- partisan review of different aspects in both the House and Senate versions and was created as tool to discern real and actual impacts.

This analysis of five unique Colorado stories illustrates how the legislation impacts an unemployed senior, a doctor, a mid-level manager, a well-known restaurant and a successful non-profit.

- **Donna Galassi**, a 47-year-old married woman with two grown children. She is starting up a new web design business, but gets her insurance through her husband. Her case study demonstrates the impact health care reform will have on people currently insured. (pg. 2)

- **Dr. Jack Dillon,** an emergency room physician in Colorado Springs at Penrose-St. Francis Hospital who is literally on the front lines of the health care debate. Dr. Dillon's case study shows the patients he sees cannot afford the prescriptions they need or the money to receive the follow-up care, but will see significant changes with reform. (pg. 7)

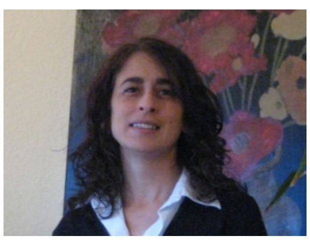
- **Peggy Woodward,** a 60-year-old single woman, who was the project manager for a telecom company earning about $70,000 per year, but was laid off in 2008 and remains unemployed and unable to buy insurance. With reform, she would qualify for Medicaid, and were she to purchase insurance through the exchange, she would be guaranteed continued health insurance coverage and would be able to renew such coverage without restrictions, such as pre-existing conditions, gender, or health status. (pg. 8)

- **Robert Tournier,** owner of Le Central, known for 29 years as the affordable French restaurant. He provides health insurance to 25 full-time employees. His annual premiums increased 25 percent in 2009, and nine percent for 2010. Le Central would like to offer the same health insurance to all employees, but has considered dropping health insurance coverage for employees because the cost has become so high. (pg. 13)

- The **Colorado Children's Campaign** (CCC) is a successful non-profit small business with a total of 12 full time employees and 3 part time employees, and an annual operating budget of approximately $1.6 million. *How have they been impacted by health care and how will the legislation impact theirs and similar organizations?* (pg. 17)

The analysis shows that across the board, health care legislation will provide real and tangible benefits for nearly every American. For example, if health care reform were in place today, Peggy Woodward would have health insurance coverage.

DONNA GALASSI'S
HEALTH CARE STORY



Meet Donna Galassi. She is a 47-year-old and starting up a new web design business. She is married with two college age children. She has insurance through her husband's employment with Aetna. They are happy with their current coverage, and that coverage would remain available and un-modified.

What the bill means for Donna: Under the current House and Senate proposals they would be able to keep the plan they have. Donna's family will not be subject to any additional taxes or fees. In fact, under the Senate version of Health Care reform premiums paid by large employers (more than 50) would hold steady or drop by up to 3 percent. An indirect but important benefit is that by reducing the number of the uninsured, it would also reduce the cost of uncompensated care. The cost shifting of uncompensated care to patients with insurance is a critical component in terms of rising costs. It is possible that cost shift reductions could reduce the cost of health care that Donna might pay over time.

Medicaid expansions or access to the Exchange would probably not be a practical consideration. However, should the family's economic situation change significantly they could potentially take advantage of the new options provided by national reform.

Background

- Her husband started up a new IT business in 1995 and was a partner in that business. The business employed as many as 16 people and was the source of the family's health insurance. The business was sold in 1999.

- As a partner in a small business, health insurance was a big issue to Donna's husband. Through that time the business stayed with the same insurance company and was able to find an affordable insurance product.
- Her husband is now employed with the company the business was sold in 1999.
- The family's annual income is over $100,000. Donna's start up business is not contributing to the family income. Her husband's employment status is critical to the family's long term planning.
- Donna's husband and family are covered by Aetna, through his employer. They have had no complaints or difficulties with Aetna.
- The family's health status is good and as a result they do not really use their insurance coverage very much.
- Donna has two college age children, one 18 and the other 21. Both are in college and her 21 year old daughter is about to go to medical school. The biggest financial problem for the family is the cost of higher education.
- There is concern that in an economic downturn her husband could lose his job. If Donna's husband were to become unemployed, the family strategy would be to go on COBRA until a new employment opportunity came along. After COBRA ran out, Donna's family is not sure what alternatives they would pursue. It is very possible that will consider going uninsured due to their current health status.

<u>What health care reform would mean for Donna and her family:</u>

- Over the 10 year period scored by the Congressional Budget Office (CBO) in the **Senate version**, premiums paid by large employers (defined as employers with more than 50 workers) would hold steady as compared to current rates or drop by up to 3 percent by 2016. http://www.cbo.gov/ftpdocs/107xx/doc10781/11-30-Premiums.pdf. There are no specific premium estimates for the large group market provided by the CBO for the House Bill.
- The **House version** would extend dependent coverage for children up to age 27 for all individual and group policies effective as of January 1, 2010. The Senate version provides coverage up to age 26 effective six months after enactment.
- Donna's family would be able to ***keep the plan they have***. They are happy with their current coverage, and that coverage would be available to them.
- Donna's husband's employer might be able to purchase health insurance through the exchange. Eligibility for larger employers is phased in under both bills.
- At present, Donna's family will not be subject to any additional taxes or fees.
- All members of the family will be required to have health insurance due to the individual responsibility provision in both bills. Based on their current income, Donna's family would not be eligible for subsidies. If their income is sufficiently high and they choose not to purchase insurance they would be required to pay a tax penalty. Both bills allow for exemptions.
    - The **Senate** version would take effect in 2014. The penalty would be phased in and would be either a flat fee or a percentage of taxable income, whichever is higher. In 2014 the penalty would be $95 or 0.5 percent of taxable income, rising in 2015 to $450 or 1% of taxable income, and reaching $750 per family member (with a maximum cap of $2250) or 2% of taxable income in 2016.

- The **House bill** requires people to have coverage by 2013, or pay up to 2.5 percent of income; the penalty cannot exceed the average cost of a plan sold in the exchanges. Depending upon income the House penalty could be higher than the Senate penalty.

- An indirect but important benefit is whether national reform, by reducing the number of the uninsured, would also reduce uncompensated care. The cost shifting of uncompensated care to patients with insurance is a critical component in terms of rising costs. It is possible that cost shift reductions could reduce the cost of health care that Donna might pay over time. As an example, Families USA estimated in 2005 that Colorado families were paying an average of $984 a year in addition to the cost of their policy due to this problem of cost shifting.

What would <u>not apply</u> given Donna's current status:

- Donna's family is not on a public program and would not be eligible for one given the family's current financial status. However, should the family's economic situation change significantly they may need the new health insurance options, including subsidies for people earning under 400% of the Federal Poverty Level.
- They have insurance and their children are dependents, so an individual mandate would not be an immediate issue for the family.
- Donna's husband no longer owns his own business so employer mandates and subsidies are not an issue. Donna's husband works for a very large company that would not receive a tax credit, and would be subject to the House bill's employer mandate or the Senate bill's free rider provision. In either instance it would be very unlikely that either provision would affect the family's coverage or premium costs.
- With their current situation, Donna would probably not acquire insurance through the insurance exchange. In future years, Donna's small business might qualify for insurance through the exchange under both bills.
- In their current circumstance they would likely not be eligible for the House public option since that would be offered through the exchange. Donna's small business might be eligible for the public option in future years.
- Due to the family's income they would not be subject to the House bill's tax on families that make more than $1,000,000 per year.
- Since Donna's family is covered under a large group Employer Sponsored Health Insurance ("ESI") plan, reforms in the individual market such as pre-existing conditions, health status, etc. would not apply. However, if in future she gets insurance through her own small business, those changes might improve her access to insurance.

<u>What health care reform would mean for Donna and her family if her husband's situation changes:</u>

- Donna could go on COBRA. When COBRA benefits ran out (after 18 months) Donna would have to purchase insurance or be subject to a penalty. The House bill provides for continuation of COBRA until the exchange is established.
- Donna would be able to purchase health insurance through a Health Insurance Exchange. Four benefit categories will be offered. However, according to the CBO **(for the Senate bill only)** people who buy their own coverage but do not qualify for government subsidies, could see increases of 10 percent to 13 percent (between now and 2016), mainly because the

coverage offered in the exchanges would cover more benefits compared with what is currently purchased, and thus would be more expensive. http://www.cbo.gov/ftpdocs/107xx/doc10781/11-30-Premiums.pdf. It should be pointed out that premium increases without health care reform would probably be greater than 10 – 13 percent for plans that offer less coverage and are subject to pre-existing condition restrictions, etc.

- **Both bills** would insure guarantee issue and renewability. Unlike today, Donna would not be subject to restrictions in the individual market, such as denial for pre-existing conditions, health status, or gender, etc. She would also not be subject to annual or lifetime benefit or cost caps.
- Donna would still be subject to premium rating based upon age. The **House bill** allows rating based on age at a 2:1 ratio, while the **Senate bill** limits age banding to 3:1.
- Depending upon income, Donna may qualify for premium and cost sharing subsidies. Subsidies could be provided for families making up to 400% of the Federal Poverty Level ($88,200 for a family of four).
- If Donna's financial situation changes dramatically, the family might be eligible for Medicaid under the new expansions.
- If Donna cannot buy individual coverage, **both bills** establish a temporary, national high-risk pool for individuals who have been without insurance for 6 months and denied health insurance because of pre-existing conditions to have coverage until the exchange is established.

Situation Without Health Care Reform if Donna's Situation Changes:

- If Donna lost employer sponsored insurance, her best option, if she could afford it, would be COBRA. COBRA costs 102% of the total cost of health insurance.
- When COBRA benefits run out (after 18 months) Donna would have two alternatives: 1) Become uninsured until her husband becomes employed or 2) Purchase insurance through the individual market. All restrictions that currently exist in the individual market would still apply and premium costs could be very high depending upon the plan she picks. She also might be denied for any health condition or have those conditions excluded.
- If denied coverage in the individual market, she would qualify for Colorado's high risk pool, Cover Colorado, but that might be prohibitively expensive for her.
- Depending on the status of her own small business, Donna might be able to purchase insurance as a small business owner.
- The New American Foundation projects that, without reform, the full cost (including employer and employee contributions) of a family policy by 2016, in Colorado, will be $25,119 a year, a 91% increase over 2008 premium levels. http://www.newamerica.net/files/nafmigration/NAFCostofDoingNothing.pdf

If a public option is included:

- If Donna is otherwise uninsured or has a very small business of her own, she would have the choice of purchasing insurance through a public option in the exchange and she could not be denied coverage. If a negotiated rate public option (currently in the House bill) were to pass it is not entirely clear to what degree that would affect premium costs over time. Public insurance has had a better track record than private insurance at reigning in costs while preserving access. Public insurance has also pioneered new payment and quality improvement methods that have set the standard for private plans. There may be a number of long term benefits beyond immediate premium costs.

Differences between the House and Senate bills that could affect Donna and her family

- The **House bill has a public option** which the **Senate does not**. Donna would not have the choice of purchasing insurance through a public option, unless she were purchasing insurance through her own small business.
- The penalties for not purchasing insurance under the individual mandate would likely be higher for Donna in the House bill than the Senate bill.
- The Senate bill includes an excise tax on the insurers of high value employer sponsored health plans (so-called Cadillac plans. If the family's employer sponsored policy costs more than $23,000 a year (adjusted over time for inflation), the insurer would have to pay a 40% excise tax on the amount of the policy that exceeded $23,000.[1]
- Some fees that the **Senate bill** applies to drug manufacturers, medical equipment manufacturers, etc., in order to fund the reform package, could potentially create downstream cost increases. This assumes that Donna's family has the need to purchase these products.
- The **House bill** is partially funded through a 5.4% surcharge imposed on families with incomes above $1,000,000 and individuals with incomes above $500,000. The House financing plan, if it is adopted, would not impact Donna and her family.

<u>If health care reform were in place today, how Donna's situation would be different:</u>

- She would be able to keep her employer based coverage, which she seems very satisfied with.
- Based on CBO estimates, the cost of the family's employer based coverage is likely, by 2016, to decrease by between 0 and 3 percent as compared to their current cost.
- Donna's children could remain dependents for the purposes of health care coverage through age 27 in the House bill and age 26 in the Senate bill.
- If Donna's husband loses his job, the family would have alternatives that currently do not exist now in terms of public programs and government assistance. These options would prevent Donna and her family from becoming uninsured.

<u>DR. JACK DILLON'S HEALTH CARE STORY</u>

Meet Dr. Jack Dillon. He is an emergency room physician in Colorado Springs. He practices at Penrose-St. Francis Hospital. He has lived in Colorado Springs since 1982.

What the bill means for Dr. Dillon: He expressed frustration that he knows the patients he sees cannot afford the prescriptions they need. Many patients do not have insurance and do not have the money to receive the follow-up care they need with a primary care physician or specialist.

[1] Note: Negotiations regarding the application and amount of the excise tax provision are underway.

What health care reform would mean for Dr. Dillon and the patients he sees in the ER:

Dr. Dillon knows the patients he sees cannot afford the prescriptions they need. Many patients do not have insurance or money to receive the follow-up care they need with a primary care physician or specialist.

What if health care reform had been in effect for the past five years?

1. Affordability, Insurance Coverage and Government Assistance: More people in Colorado Springs would qualify for premium credits or government assistance in the exchange. The number of people with health insurance would be higher. It is likely that more people would be receiving needed health care in a physician's office rather than receiving their care in the ER.
2. Pre-existing conditions: Insurance companies could not deny insurance for health status and more people would have health insurance. It is likely that those people would receive care in a physician's office or clinic and would not need as much ER care.
3. Public programs: Low income adults and more children would be eligible for public programs and would have access to a physician or clinic.
4. Medicare: The "donut hole" for Medicare Part D (prescription coverage) would be significantly closed and more Medicare beneficiaries can afford their prescriptions.

Without health care reform:

1. More people in Colorado Springs will be uninsured and underinsured and will seek care in the ER. Hospitals will either raise rates for private and public programs to provide care for the uninsured and underinsured or will terminate some services.
2. People will have more significant health problems, including death, without the ability to see health providers for routine and specialty care.

PEGGY WOODWARD HEALTH CARE STORY

Meet Peggy Woodward. She is a 60-year-old single mother of five adult children. She was the project manager for a telecom company earning about $70,000 per year but was laid off in 2008 and remains unemployed. She has been unable to afford insurance and has no real access to health care short of the emergency room or a community clinic.

What the bill means for Peggy: If health care reform were in place today, Peggy Woodward would have health insurance coverage. She would qualify for Medicaid, and were she to purchase insurance through the exchange, she would be guaranteed continued health insurance coverage and would be able to renew such coverage without restrictions, such as pre-existing conditions, gender, or health status. She would also not be subject to annual or lifetime benefit or cost caps. If a Medicare buy-in were part of health care reform, because of her age, she would have yet another option for coverage. In every instance, Peggy would have options that are simply not available to her now.

<u>BACKGROUND:</u>

- Due to lack of employment, Peggy has run out of savings (including 401K savings) and has filed for bankruptcy. This bankruptcy was not related to health care issues, but she has been unable to purchase health insurance because of her financial situation.
- Prior to being laid off Peggy was covered through employer sponsored health insurance with United Health Care. She was satisfied with her coverage and experienced no issues.
- Coverage with United Health Care was very affordable under her old salary.
- Even though it was an option, Peggy did not choose to apply for COBRA coverage. COBRA premiums were very expensive and cost almost 4 times as much as she had been previously paying during her employment. (Note that COBRA costs 102% of the full cost of a premium and since employers typically pick up 75% of premiums costs in Colorado, the cost of COBRA is beyond the reach of most people who are unemployed.
- Peggy did purchase health insurance through the individual market until the last couple of months. At that point, she was no longer able to pay for coverage. As a result, at age 60 she is now uninsured.
- Up until now Peggy has not incurred any debt as a direct result of health care costs or coverage.
- Now that Peggy is uninsured she really does not know what her options are and is currently researching what they might be.
- Peggy's health status is currently good with no pre-existing conditions.

<u>Peggy's situation without health care reform:</u>

- Without employment Peggy's health coverage options are very limited.
- She cannot purchase insurance from the individual market because she is bankrupt and cannot afford it.
- There are currently no limits on how much more an older person can be charged than a young person in Colorado, therefore Peggy is likely to pay substantially more than a younger person for health insurance.
- Colorado allows for gender rating in the individual market, therefore if Peggy could afford health insurance she would be charged more than a man.
- Low income, non-disabled, adults **<u>without</u>** dependent children are not eligible for Medicaid regardless of their financial situation. The hospital provider fee passed during the 2009 legislative session will permit Colorado to expand Medicaid coverage to low-income single adults, but not until January, 2012. It is also highly likely that this expansion will cover only a limited set of medical services.
- Since Peggy has not been technically denied coverage in the individual market she does not qualify for Cover Colorado. Cover Colorado is Colorado's high risk insurance pool,

providing insurance for people otherwise denied access to the individual market place because they have a health condition or conditions. Even if she did qualify for Cover Colorado, it would be unlikely that she would be financially able to afford to participate as premiums typically are significantly more expensive than in the individual market.

- Peggy may be eligible for the Colorado Indigent Care Program (CICP), a program where individuals who do not qualify for Medicaid can receive services on a sliding scale basis from a CICP provider. CICP is not an insurance program but a reimbursement mechanism for participating primary care and hospital providers who see uninsured patients. To qualify, applicants must have combined resources and income at or below 250% ($27,075 for an individual or $55,125 for a family of four) of the Federal Poverty Level (FPL). There are no age limitations for CICP eligibility. Participation in CICP does not guarantee access to care, and there are virtually no specialists who participate in the CICP program.
- Peggy may qualify for the Old Age Pension (OAP) program. OAP is a program that ensures that older people have a minimum income of $699 a month. OAP may include access to medical care through the OAP Health and Medical Care Program, but providers are reimbursed for providing that care on a percentage basis depending on the amount annually appropriated by the Colorado General Assembly to the program.

<u>What health care reform would mean for Peggy:</u>

- Most of the benefits listed below are in both the House and Senate bills.
    - The **House bill** will implement many key elements in January 2013.
    - The **Senate bill** will implement many key elements in January 2014.

<u>Public program expansion:</u>

- Both the House and Senate bill would expand Medicaid to include coverage for persons under 65 **<u>without</u>** dependent children. If Peggy were still unemployed she would qualify for the federal Medicaid expansions.
    - The **Senate bill** will expand Medicaid eligibility to people or families at or below 133% of the FPL ($14,403 for an individual and $29,326 for a family of four). Peggy would be eligible for Medicaid under the Senate version of the reform bill.
    - The **House bill** would expand Medicaid eligibility to people and families to 150% of FPL ($16,245 for an individual and $33,075 for a family of four). Peggy would be eligible for Medicaid under the House version of the bill.

<u>Individual Requirement/Mandate:</u>

- **In both the Senate and House bills** Peggy would be required to have insurance. However, if her current situation continues she would be able to fulfill that requirement by participating in the Medicaid program.
- When Peggy's income increases, she will be required to have health insurance. She might be eligible for a sliding scale subsidy to help her pay for insurance under both the House and Senate versions of the bill as long as she earns less than 400% of the Federal Poverty Level (or $43,320 a year), Whether she would be eligible for a subsidy would depend on whether she was purchasing insurance through the exchange and the percentage of income she was paying for health care (see affordability discussion below)

- Potential Penalty for Failing to Participate: If Peggy chose not to purchase health insurance she would be subject to a penalty as follows:
  - If the **Senate bill** were adopted, those without coverage pay a tax penalty of the greater of 2% of income or $750 per year up to a maximum of three times that amount ($2,250) per family. The penalty will be phased-in according to the following schedule: $95 in 2014; $495 in 2015; and $750 in 2016 for the flat fee, or .5% of taxable income in 2014, 1% of taxable income in 2015, and 2% of taxable income in 2016 After 2016, the penalty increases annually according to the cost of living adjustment.
  - If the **House bill** were adopted those without coverage pay a penalty of 2.5% of their adjusted income above the filing threshold up to the cost of the average national premium for self-only or family coverage under a basic plan in the Health Insurance exchange.

Affordability and the Government Assistance Structure:

- In the House bill people are exempted for "financial hardship" and in the Senate if the lowest cost plan exceeds 8% of a person's income or if their income is below 100% of the Federal Poverty Level.
- If Peggy becomes employed and purchases health insurance through the health insurance exchange she may receive a premium and cost sharing subsidy if her income is at 400% of FPL ($43,320) or lower. **Both the House and Senate bills** would provide refundable and advanceable premium credits to individuals and families with incomes between 100-400% FPL to purchase insurance through the exchanges.

Health Insurance Reform:

Peggy would be guaranteed health insurance coverage and could renew coverage without restrictions, such as pre-existing conditions, gender, or health status etc. She would also not be subject to any annual or lifetime benefit or cost caps.

- Peggy would be protected under both bills against "age rating". While she still could be rated more than a younger person, under the House bill she could be charged only twice as much and under the Senate bill three times as much.

Long Term Care

The Senate and House bills include a national voluntary insurance program for purchasing community living assistance services and supports (CLASS program). The Senate program is more robust than the House bill. Both versions are financed via voluntary payroll deductions: all working adults will be automatically enrolled unless they choose to opt-out.

If a public option is in the final version:

Peggy would have the choice of purchasing insurance through a public option. Whether or not the public option is more affordable for Peggy will depend on how it is structured, for example, how closely provider rates mirror the Medicare program, what economies of scale can be realized through a public option, how many people are allowed to participate, and what cost savings result from potential quality improvement mechanisms. Currently the CBO projects that the House version of the public option might cost more because it may attract a high cost group of people because of the way it is structured. Generally, public insurance has had a better track record than private insurance at reigning in costs while preserving access. Public insurance has also pioneered new payment and quality improvement methods that have set the standard for private plans. There may be a number of long term benefits for Peggy beyond immediate premium costs.

Differences between the House and Senate bills that could affect Peggy

- Peggy would be covered by the Medicaid expansions in both the House and Senate bills if her income was under 133% of FPL. If her income was between 133 % and 150% of FPL, the formula from the House bill would allow her to take advantage of the benefit, where the Senate cut-off would not.
- The House bill offers better protection against age rating than the Senate bill (2:1 vs 3:1 limits
- If Peggy were to purchase private insurance through the exchange the House bill provisions would probably be more advantageous to the consumer. The four House bill insurance plans tend to cover more of the benefit costs than the Senate bill (about 5% in most cases).
- The House bill has a public option which the Senate does not.
- The penalties for not purchasing insurance would likely be higher for Peggy in the House bill than the Senate bill (this would depend on her actual income). If Peggy were still unemployed and in her current financial situation, she would be exempt from the penalty in either bill.
- If Peggy were to be covered by an employer sponsored plan that cost more than $8500 for an individual, (a so-called Cadillac plan) the cost of the plan that exceeded $8500 would be subject to a 40% excise tax in the Senate bill. This excise tax is a significant source of funding for the Senate initiative.
- The House bill funds a large portion of its costs through a 5.4% surcharge imposed on families with incomes above $1,000,000 and individuals with incomes above $500,000. The House financing plan would therefore not impact Peggy.

<u>If health care reform were in effect the past five years, how Peggy's situation would be different:</u>

- Peggy would have health insurance coverage via Medicaid. At age 60, Peggy now has no real access to health care short of uncompensated treatment at an emergency room or safety net clinic.
- With Medicaid, she would not have had to further deplete her savings by purchasing health insurance in the individual market or through COBRA. This may have delayed the necessity for filing bankruptcy.
- If Peggy were only able to find employment opportunities at a salary substantially lower than her past position, she might qualify for premium credits and assistance to purchase private health insurance through the Health Insurance exchange
- If Peggy were to purchase insurance through the exchange she would be guaranteed continued health insurance coverage and would be able to renew such coverage without restrictions, such as pre-existing conditions, gender, or health status. She would also not be subject to unreasonable annual or lifetime benefit or cost caps

In every instance, Peggy would have options that are not available to her now. She would have had one less concern during her unemployment in a national recession. She would have a level of security should her health status change. She would be able to take advantage of preventative treatments that she does not have access to now. She would not have to wait until an illness became ever more serious before she would decide to seek treatment.

While Peggy has to wait for federal reform to be passed and implemented , people who find themselves in Peggy's situation in the future may not have to go through the same thing she is experiencing now. Peggy's situation is not a result of anything she did, but rather the outcome of a system that does not always meet the needs of those who are temporarily or permanently vulnerable.

LE CENTRAL HEALTH CARE STORY

Meet Robert Tournier, owner of Le Central, and known for 29 years as the affordable French restaurant. He provides health insurance to employees who work forty hours a week. Out of fifty employees, 25 are full time. His annual premiums with Kaiser small group insurance increased 25 percent in 2009 and nine percent for 2010. Le Central offers a fixed dollar contribution and the amount varies depending on the category of the employee.

Le Central would like to offer the same health insurance to all employees, but the cost is too high. Over the years Le Central increased the deductible and reduced the employer contribution as rates escalated. Le Central has considered dropping health insurance coverage for employees because the cost has become so high.

What health care reform would mean for Le Central and other small businesses:

Senate Bill

Coverage Requirement for Employers: Employers with fewer than 50 employees are not required to offer insurance to either full or part-time workers. The bill defines a full time worker as someone who works at least 390 hours over a 13 week period. Le Central has about 25 full time workers. An employer with fewer than 50 full time employees will not be required to pay anything for either full time or part time workers, even if a worker goes on Medicaid or receives a subsidy through the exchange.

Employers with more than 50 employees: Employers that do not offer coverage and have at least one full time employee who receives a premium tax credit will pay a fee of $750 for each full time employee. Employers that offer coverage but have at least one full time employee receiving a premium tax credit, will pay the lesser of $3,000 for each employee receiving a premium credit or $750 for each full time employee. For employers that impose a waiting period before employees can enroll in coverage, the bill requires payment of $400 for any full time employee in a 30-60 day waiting period and $600 for any employee in a 60-90 day waiting period. (Effective January 1, 2014)

Tax Credits: Small businesses that employ no more than 25 employees and average annual wages of less than $50,000 each would be eligible for a sliding scale tax credit. Le Central is right at the cusp of the eligibility for this tax credit.
Phase 1 of the tax credit, for tax years 2010 through 2013, is up to 35% of the employer's contribution toward the employee's health insurance premium cost or 50% of a benchmark premium.
Phase 2 is for tax years 2014 and later, for small businesses that purchase through the state exchange and provides a credit of up to 50% of the employer's contribution toward the employee's health insurance premium if the employer contributes at least 50% of the total premium cost.
The tax credits would begin in 2010.

If Le Central has more than 25 full time workers, it would not be eligible for a tax credit.

Exchange: Le Central may be eligible to buy health insurance through the exchange. The Senate bill creates a state Health Insurance Exchange and permits small businesses to purchase insurance through the exchange. Colorado could establish one exchange or two separate exchanges, one for individuals and the other for small businesses.

Insurance Reforms: Policies purchased would have to cover a minimum set of benefits and a minimum actuarial value of 60%, although policies held currently would be grandfathered in.

Le Central would be required to provide a "free choice voucher" to employees under 400% of the Federal Poverty Level ($43,320 annual income for one person) whose premiums exceed 8% but are less than 9.8% of their income and who choose to enroll in a plan in the exchange.

House Bill

Coverage Requirements for Employers: The House bill require employers to offer coverage to employees or pay a penalty. The penalty depends on annual payroll, and ranges, for firms with payrolls of more than $500,000 a year from 2% to 8% of payroll. (Firms with smaller payrolls are exempt). Le Central would likely pay 4% of annual payroll if it did not offer health insurance.

A business must contribute at least 72% of the premium cost for single coverage and 65% of the cost for family coverage for the lowest cost plan that meets the requirement of the essential benefit package. There is no distinction between full and part time workers, but the business can elect to cover full time workers but not part time workers. A business that elects not to cover part time workers would pay a penalty on the same sliding scale as it would pay for not providing coverage for full time workers.

The House bill also requires employers that offer coverage to automatically enroll into the employer's lowest cost premium plan any individual who does not elect coverage under the employer plan or does not opt out of such coverage. (Effective January 1, 2013)

Tax credits: Businesses with fewer than 25 employees and average wages of $40K will receive a health coverage tax credit for up to two years. Le Central currently has a total of about 50 full time and part time employees, with about 25 full time employees and would likely not be eligible for this tax credit as employees are currently defined.

Exchange: Le Central may be eligible to purchase health insurance from the exchange because it is a small business.

Insurance Reforms: Policies purchased would have to cover a minimum set of benefits and have a minimum actuarial value of at least 70%, although policies held currently would be grandfather in.

Le Central will benefit from new transparency provisions including a requirement for public review and justification of rate increases, and no excessive rate increases in the exchange.

<u>What if health care reform had been in effect for the past five years?</u>

If health reform had been in effect for the past five years it is highly likely, based on current projections that Le Central would not have seen a 25% increase in premiums this past year, and in fact would have seen a decrease in premiums.

- **Employer responsibility**: Under the House bill, Le Central would have had to provide coverage for all workers or pay a penalty, and might have received a tax credit to assist with the purchase of insurance.
- **Employee Subsidies**: Depending on income, a small business employee might qualify for subsides through the exchange under **both the House and Senate bills**. Benefits levels for both employer sponsored and non-employer sponsored insurance might increase for employees because a set minimum standard is established in both bills.
- Employees would not be charged more because they are women and there would be limits on age banding—the House bill ratio is 2:1 and the Senate bill is higher at 3:1.
- Le Central would have been able to take advantage of new transparency provisions including a requirement for public review and justification of rate increases, and no excessive rate increases in the exchange

<u>Le Central's situation without health care reform:</u>

- Health insurance premiums increased by 25% for Le Central in 2009. Projecting forward based on current law, the employer share of premiums in Colorado will grow by 109.2% between 2009 and 2019 (from $7,321 to $15,317) "Without reform, health care and premium costs will grow at more than twice the rate of economy wide productivity." ("The

Future of Health Care in Colorado, New America Foundation, December 2009, quoting the Urban Institute. http://www.scribd.com/doc/24192375/The-Future-of-Colorado-Health-Care

- Small businesses, like Le Central are likely to face the prospect of making harder and harder choices about providing health insurance to their employees, premiums and co-payments for employees will likely increase and benefit levels are likely to decrease.
- Le Central's employees would lose the safety net alternatives (government assistance if they remain employed and government assistance and Medicaid expansions, should they be laid off) that are available through both the Senate and House bills.
- If this small business were to limit employee benefits, the only alternatives for employees are COBRA, purchasing insurance in the individual market with at current rates and with current restrictions, or being uninsured.

If the public option is included:

- Le Central would have the option of choosing a public option in the Health Insurance Exchange. The public option is included in the House bill. If a negotiated rate public option (currently in the House bill) were to pass it is not entirely clear to what degree that would affect premium costs over time. Public insurance has had a better track record than private insurance at reigning in costs while preserving access. Public insurance has also pioneered new payment and quality improvement methods that have set the standard for private plans. There may be a number of long term benefits beyond immediate premium costs.

Differences between the House and Senate bills that could effect Le Central:

- **Tax Credits**: Le Central is at the cusp of eligibility for the tax credits, but may be eligible for those credits under the Senate bill "no more than 25 employees" but not under the House bill "fewer than 25 employees". Note the Senate bill defines full time worker as someone who works at least 390 hours over a 13 week period (an average of 30 hours a week).

- **Employer Requirements:** The House bill requires employers to offer health coverage and contribute at least 72.5% of the premium cost for single coverage and 65% of the premium for family coverage or to pay 8% of payroll into the Health Insurance Trust Fund. There are reductions in this assessment for businesses with annual payroll of less than $750,000. Depending on the annual payroll for Le Central, the assessment could be zero (annual payroll less than $500K) or 2% (between $500K and $585K) 4% (between $585K and $670K) or 6% (between $670K and $750K).

  The Senate bill exempts employers with fewer than 50 employees from penalties. As employees are defined in the bill, Le Central would be exempt from the penalties. Employers that offer coverage to employees must provide a free choice voucher to employees with incomes less than 400% of the FPL, whose share of the premium exceeds 8% but is less than 9.8% of their income and who choose to get health insurance thru the exchange.

The Senate version changes the definition of full time worker to take into account employee fluctuation and reduce the impact of employer responsibility requirements for industries with high turnover and that rely on part time employees to sustain their business.

- **Public Option:** While Le Central is likely to have the option to purchase health insurance through the exchange under either version of the bill, only the House bill has a public option.

- **Exchange**: The House bill establishes a national exchange, the Senate bill state based exchanges.

IF HEALTH CARE REFORM WERE IN PLACE TODAY HOW WOULD LE CENTRAL'S SITUATION BE DIFFERENT?

- The CBO estimates that, under the Senate version of the bill, small businesses (with fewer than 50 employees) are likely to see anywhere from a 1% increase to a 2% decrease by 2016 in premiums relative to current law. http://www.cbo.gov/ftpdocs/107xx/doc10781/11-30-Premiums.pdf
- Le Central might have more options for health insurance through participation in the exchange.
- Depending on whether the House or Senate bill provisions are in place, Le Central may or may not be required to offer health insurance to all employees.
- Depending on the calculation of the number of employees, Le Central may or may not be eligible for a tax credit to provide health insurance.
- Employees would not be charged more because they are women and there would be limits on how much more an older person could be charged for insurance than a younger person. The age based ratio is 2:1 in the House bill and 3:1 in the Senate.

THE COLORADO CHILDREN'S CAMPAIGN HEALTH CARE STORY

The Colorado Children's Campaign (CCC) is a successful non-profit small business with a total of 12 full time employees and 3 part time employees and an annual budget of approximately $1.6 million.

Background:

- Previously, CCC employees were covered by Anthem. Last year, premiums increased by 18% over the previous year. As a result of these increases and the need to manage an increasingly tight organizational budget, the Children's Campaign has changed carriers and their employees are now covered by Kaiser. The Children's Campaign has chosen a new insurance provider and has made every effort to keep employees' benefits constant.

- Benefits with Kaiser are similar to Anthem. Kaiser does present some advantages over Anthem because they offer lower co-pays for some services and no co-insurance. The biggest drawback has been the need for employees to change to Kaiser providers. This was a transition that CCC's employees had to make in order to address rising premium costs but was challenging for some employees who had long and trusted relationships with their existing providers. This is a situation encountered more and more frequently by small businesses in Colorado.
- In the recession, the Children's Campaign has not considered dropping or even reducing health insurance coverage. However, they have reduced benefits in other areas, such as their 403b matches, parking reimbursements, and employee development programs. This is another indication that small businesses may have to pass other costs down to employees, reduce other benefits, or absorb losses as an organization, in part to maintain insurance coverage in an economic downturn.
- Because the Children's Campaign was able to keep health care costs the same in 2010, by switching to Kaiser, health insurance costs did not affect their budget this year. If that had not been an option, the Children's Campaign probably would have had to make other tough choices related to expenses next year to make up the additional costs.
- If the Children's Campaign had been unable to find an alternative to Anthem, they would have had to make up for the significant additional costs with additional revenue or dramatic reductions in expenses in the operating budget, including salaries.
- The transition to Kaiser has been relatively smooth during its first month.

What health care reform would mean for the Colorado Children's Campaign and its employees:

Because the Children's Campaign purchases coverage in the small group market, they could see substantial premium cost improvements over their current situation under health care reform. In the small group market, which is defined in this analysis as consisting of employers with 50 or fewer workers, the Congressional Budget Office (CBO) estimates that the change in the average premium per person resulting from the legislation could range from an increase of 1 percent to a reduction of 2 percent in 2016 (relative to current law). Keep in mind that the Children's Campaign had an 18% premium increase last year.

CCC would not be eligible for a tax credit under either the House or Senate version of the bill. The Senate tax credit applies to small businesses with fewer than 25 employees and average annual wages of less than $50,000 a year. The House version provides a tax credit to businesses with fewer than 25 employees and annual wages averaging less than $40,000 a year.

Due to the number of employees and its provision of health insurance, the Children's Campaign would not be subject to the "free rider" provision of the Senate bill which requires businesses with more than 50 full time employees to pay a certain amount if any one of those full time employees receives subsidies or Medicaid through the exchange.

Under the House bill, businesses with payrolls between $670,000 and $750,000 like the Children's Campaign, would pay 6% of payroll if they did not offer health insurance to their employees as of January 1, 2013. They would also, under the House bill, be required to pay at least 72.5% of the cost of an individual premium and 65% of the cost of a family premium for the lowest cost policy plan that meets the essential benefits plan requirements in order to comply with the coverage requirement.

Under the Senate bill, CCC would be required to offer a "free choice" voucher to certain employees. These vouchers are only available to those people with incomes under 400% FPL whose premiums exceed 8% but remain under 9.8% of their income. The voucher is equal to the amount the employer would have paid for the employee, but enables the employee to purchase insurance in the exchange. Under the House bill, the CCC would have to automatically enroll any employee at CCCs lowest cost premium plan unless the employee opts out of the plan.

The Health Insurance Exchange: The Senate bill creates both American Health Benefit exchanges and Small Business Health Options Program (SHOP) Exchanges, administered by a governmental agency or non-profit organization, through which individuals and small businesses with up to 100 employees can purchase qualified coverage. The House bill would also permit small employers to participate in the exchange. The House bill will phase in the ability of small employers to purchase insurance through the national exchange.

Employee Subsidies: Depending on income, a small business employee might qualify for subsides through the exchange under **both the House and Senate bills**. Benefits levels for both employer sponsored and non-employer sponsored insurance might increase for employees because a set minimum standard is established in both bills.

Both bills offer increased information and transparency to individuals and businesses shopping for health insurance. The Senate bill, for example, requires establishment of a telephone hotline, a website, and information on open enrollment periods and how to enroll.

The Colorado Children's Campaign's situation without health care reform:

- Over the past nine years, the cost of employer sponsored health insurance in Colorado has more than doubled. Small businesses typically spend 18% more than large business on health insurance. (The Cost of Doing Nothing; http://dpc.senate.gov/docs/states-fs-111-1-87/co.pdf). If this trend continues, CCC, like other small businesses, would likely face difficult trade offs in wages, benefits and staffing.

- Without reform, small business employees, including CCC's employees, would lose all of the safety net alternatives offered under both the House and Senate versions of the bill, including subsidies if they remain employed or subsidies and Medicaid expansions, should they be laid off. Under the current system, an employees alternatives are COBRA (including the state's "mini COBRA), purchasing insurance through insurance in the individual market with all of the current costs and restrictions, or being uninsured.

If a public option should pass:

- The public option is in the House bill, not the Senate bill. The public option would be available as an insurance option through the exchange. If there were a public option, those small businesses and small business employees who were eligible to participate in the exchange might be able to choose the public option. It would be very difficult at this stage to tell how much participation in the public option would improve premium costs. If a negotiated rate public option (currently in the House bill which differs from the original plan that used set and non-negotiable rates) were to pass it is not entirely clear to what degree that would affect premium costs over time. Having said that, public insurance has had a better track record than private insurance at reigning in costs, including administrative costs, while preserving access. Public insurance has also pioneered new payment and quality improvement methods that have set the standard for private plans.

Scenarios for Small Businesses that Do Not Provider Coverage Under the House and Senate Bills:

The Children's Campaign is an example of a small, Colorado business. While CCC does not anticipate dropping or reducing coverage, it is useful, for purposes of this analysis, to understand what would happen under health care reform to small businesses who do not offer coverage.

Under health reform, employees of a small business that drops or has to significantly reduce coverage in the future would not have to be entirely dependent upon employer sponsored insurance. **Under both the House and Senate bills,** small business employee's who are not offered health insurance, would have the option to purchase insurance through either a State or National Insurance Exchange without being subject to existing individual market restrictions such as pre-existing conditions or health status exclusions.

With respect to the **Senate bill only**, **(and only for employees of small firms that do not offer coverage)** the Congressional Budget Office suggests that people who buy their own coverage but do not qualify for government subsidies, could see premium increases of 10 percent to 13 percent, mainly because the coverage offered in the exchanges would cover more benefits compared with what is typically purchased today in the individual marketplace, and thus would be more expensive. The CBO analysis compares rates with what they would be under current laws, and focuses on 2016, as the time when the provisions of the new legislation would be fully implemented. Note that family premiums for employer sponsored health insurance are projected to increase by 91% between 2008 and 2016. (The Cost of Doing Nothing, New American Foundation, p.20) and CCC saw an 18% premium increase last year alone.

Differences between the House and Senate bills that could affect Small Businesses

- The public option would not be available under the Senate bill.
- The exchange would be state based in the Senate bill and nationally based in the House.
- The House bill would require small businesses that have payrolls of more than $500,000 a year to offer health insurance or pay a penalty. That penalty would apply on a sliding scale basis, from 2% of payroll up to a maximum of 8% of payroll.
- The Senate bill exempts employers with 50 or fewer employees from participation, except the construction industry where employers with more than 5 employees must offer coverage or pay a penalty.

- Under the House bill businesses with fewer than 25 employees and annual wages of $40,000 a year or less would be eligible for a tax credit.
- Under the Senate bill, businesses with no more than 25 employees and average wages of less than $50,000 a year are eligible for a tax credit.
- If the Senate financing mechanism were in place, insurers of employees who pay more than $8,500 a year for an individual or $23,000 for a family plan would be subject to a surcharge of 40% of the value of the plan that exceeds that threshold.[2]
- The House imposes a surcharge of 5.4% on individuals earning more than $500,000 a year and families earning more than $1 million.

<u>If health care reform were in place today, how would CCC's situation be different:</u>

- There is a good chance the CCCs premiums would not have gone up 18% last year.
- CCC might have more options for health insurance through participation in the exchange.
- Employees would not be charged more because they are women and there would be limits on how much more an older person could be charged for insurance than a younger person. The age based ratio is 2:1 in the House bill and 3:1 in the Senate.

[2] Note: Negotiations regarding the application and amount of the excise tax provision are underway.