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# What Every Texan Should Know About the Health Reform Bills

The Kaiser Family Foundation released mid-January poll results that found Americans squarely divided on national health reform proposals—at least at first glance. The poll went on to show that **large proportions of Americans are unaware of the major provisions of heath reform** bills, and their support increases dramatically when told about provisions like tax credits to help small businesses cover their employees, health insurance exchanges where coverage options can be compared; closing the Medicare drug benefit "doughnut hole," and eliminating denials and rate hikes because of pre-existing conditions.

The sometimes raucous debate over hot-button issues (and outright untruths) of the last 6 months has worked against Americans getting a clear picture of the framework of health reform. As we go to print, a concerted effort is underway to pass reform legislation (i.e., by adopting the Senate bill and enacting separate legislation to add elements of compromise with the House bill). Should this effort succeed, the new law would likely resemble the Senate's bill more than the House version. This ***Policy Page*** provides a high-level outline of the key **insurance coverage** elements of the Senate bill, noting areas in which compromises with the House are likely.

If reading this overview leaves you hungry for more depth, please see CPPP's detailed Texas-perspective comparison of Senate and House proposals, which explains many key differences and estimates how coverage of Texans and state budget Medicaid costs might be affected.

## Immediate Benefits of Reform

The following major benefits of reform will take effect either immediately, or during the first year after a bill is signed into law.

**Prohibit lifetime benefit limits in all plans:** All commercial insurance (individual and group) plans will have to eliminate any such caps six months from enactment. Restrictions will also be placed on the use of annual limits at that time, and in 2014 they would be banned completely.

**Prohibit pre-existing condition exclusions for children:** All commercial insurance (individual and group) plans will be prohibited from excluding coverage of medical services to treat a child's pre-existing condition.

**Accountability for health premium spending:** Insurers will be required to spend at least 85 percent of premiums in the large group markets and at least 80 percent in the small and individual markets on medical benefits—or must provide consumer rebates if their medical benefit spending falls below this percentage.

**Ban Co-pays and other Out-of-Pocket Expenses for Preventive Care and Immunizations:** Similar to the Medicare provision for U.S. Preventive Services Task Force-recommended services, this requirement would apply to well-baby, child, adolescent and well-woman care, immunizations, and would take effect 6 months after enactment for all commercial insurance (individual and group) plans.

**Prohibit "Rescissions" (Retroactive Cancellation of Health Insurance):** Texas has the 6th highest rate of rescissions in the U.S. The reform bill would prohibit these cancellations except in cases of fraud, starting six months from passage.

**Permit Dependent Coverage Up to 26th Birthday:** All commercial insurance (individual and group) plans must allow families to retain adult children in their policy until they reach the age of 26.

**Create High-Risk Pool Coverage Nationwide** for people denied coverage because of medical conditions. This new high-risk coverage will be more affordable than the current Texas high-risk coverage and will not include pre-existing condition waiting periods. This pool would operate until the insurance exchange is up and running in 2014; exchange coverage will not be denied or priced based on health conditions).

**Expanded Access to Community Health Centers:** The Senate bill invests $10 billion in Community Health Centers starting in 2010, to help expand access to health care in communities where it is needed most.

### Medicare improvements

**New preventive benefits:** Adds coverage of a comprehensive annual check-up and other prevention benefits (all those rated A or B by the U.S. Preventive Services Task Force). Both the check-ups and the preventive services would be provided with no out-of-pocket costs; that is, not subject to co-payments, deductibles or coinsurance.

**Shrinking/Closing the Drug "Doughnut Hole":** The Senate bill would shrink the Doughnut Hole by $500 in 2010 and provide 50% discount on brand-name drugs in the remaining coverage gap, but House and Senate negotiators are pushing for a better fix. Closing the gap entirely by 2019 is their goal, so this is a topic where change is expected in a final bill.

**Extends Solvency of Medicare Trust Fund by 5 years:** Rather than "cutting" any current Medicare benefits or budgets, the Senate bill reduces the increase in Medicare spending from 2010 to 2019 from the predicted 88% to "just" 67%.

**Better Access to Community-Based Services and Supports:** Medicare today does not cover community-based services to help seniors remain in their homes. The bill addresses this longstanding gap in the program by creating a voluntary insurance program (CLASS) to provide community-based assistance services and support.

### Good Coverage at a Fair Price

These sweeping reforms would start in 2014 under the Senate bill; areas are noted where improvements may be added as part of the compromise process with the House.

**Private health insurance reform:** For all new regulated group or individual insurance, no one could be turned down or cancelled for coverage, or charged more because of their health status or history, nor could a plan exclude coverage of a pre-existing condition. No annual or lifetime maximums will be allowed.

**New Health Insurance Exchange(s)** will be created where private insurers' options can be compared and purchased (like Amazon or Travelocity for insurance). In addition to meeting all the new rules above, coverage in the Exchange would have to meet minimum standards for benefits, would not allow any premium variation based on gender or occupation, and would limit premium variation based on age to 3:1. The Senate bill would require at least one non–profit insurance plan to be offered in every state.

- All members of Congress and their staff would be required to get their insurance coverage through the Exchange.
- ***Compromise Possible:*** *The Senate bill would create state-level exchanges (with the federal government stepping in if a state failed to provide an exchange), and the House would create one national exchange with stronger insurance regulation reforms. The Senate also allows extensive "grandfathering" of existing plans—that is, partial exemption from the new regulations. These differences are part of compromise negotiations between the House and Senate.*

## Affordable Coverage

Nearly 90% of the 6.1 million uninsured Texans have family incomes below four times the federal poverty income level (400% FPL, or $88,200 for family of 4). For these families and individuals, even a fair premium for insurance is unaffordable without help. To help these Texans, the provisions below would start in 2014 under the Senate bill.

**Medicaid for very low-income adults:** States would begin to cover all U.S. citizen adults up to 133% of the federal poverty level (less than $14,404 for one person; $29,327 for a family of 4). Today, Texas does not cover most parent or adults without children at this income level. About 1 million of today's currently-uninsured Texas adults would qualify for this coverage.

The federal government would pay 100% of the costs of this new coverage for three years, then the state would pick up a small share that would top out at 7.14%, meaning Texas would get 13 federal dollars for every one dollar the state budget has to chip in.

**CHIP Program Preserved:** The Senate bill keeps the CHIP program through at least 2019, and extends CHIP block grant funding by two more years (through 2015). Children's health advocates have applauded this approach, which would help protect against abrupt increases in out-of-pocket costs or loss of comprehensive benefits for low-income children in the transition to health reform.

**Sliding-scale premium assistance: U**ninsured individuals and families with incomes above the Medicaid limit and up to 400% of FPL ($43,320 for a single person, $88,200 for family of 4) could purchase insurance through the Exchange, and would be protected from having to spend more than a predictable percentage of their income on the premium (ranging from 2% to 9.8%). About 2.3 million of today's currently-uninsured Texans would qualify for this help, and no state matching dollars are required.

**Out-of-pocket subsidies (to reduce out of pocket costs):** The Senate bill would also provide lower out-of-pocket costs like co-payments, co-insurance and deductibles for families up to 250% of the FPL (up to $27,075 for one person, and $55,125 for a family of 4) when they are covered through an Exchange.

- ***Compromise Possible:*** *The House bill includes more generous premium subsidies for families under 250% FPL, and stronger out-of-pocket protections that extend up to 350% of the FPL. These differences are part of compromise negotiations between the House and Senate.*

**Out-of-pocket caps for ALL persons with high medical expenses:** Under the Senate's bill, new individual and group coverage, including new self-insured plans, must establish annual out-of-pocket spending caps that can't be any higher than $5,950 for an individual and $11,900 for a family, which will provide an upper limit for families with incomes above 400% FPL.

## Individual and Employer Responsibility

Affordable coverage depends on spreading risk across the largest number of people possible to keep the price down for all. Keeping healthy people in the pool is critical, and an individual responsibility to get insurance makes this possible. Similarly, because employer-sponsored insurance is the foundation of our current system, incentives to keep employers from dropping current coverage and to make sure the coverage they sponsor meets minimum standards is also part of reform. **Penalties for not meeting individual and employer responsibilities under the Senate bill are, however, only a fraction of the cost of buying or providing insurance.** Designed to create an incentive to take responsibility, the penalties charged to those who will not or cannot comply will help support the health care systems they will rely on if they are sick or injured while uninsured.

**Individual mandate:** Starting in 2014, all U.S. citizens and legal residents will be required to obtain coverage that meets minimum "qualifying coverage" requirements for themselves and for their dependents.

**Many exempt from mandate.** Exempt from the requirement would be (1) uninsured persons for whom the lowest-price available Exchange plan costs more than 8% of family income; (2) anyone with income below the poverty line;

(3) those excused for financial hardship (to be defined); (4) Religious objectors; (5) Native Americans; (6) Undocumented immigrants (who are also ineligible for Medicaid and premium assistance); (7) Incarcerated persons; and (8) those with a gap in coverage of less than 3 months.

For those who are not exempt, the penalty for failing to get coverage (a federal income tax penalty) is based on the number of uninsured persons in a family, but the family maximum is the greater of 3 times the individual penalty, or 2% of family income. The penalties will phase in from 2014 to 2016, and from 2016 on would be $750 for adults and $375 for children under age 18 (maximum of $2,250 per family, or 2% of income). Annual inflation updates will be applied to the penalty amounts after 2016.

**Penalties for the uninsured are a fraction of the cost of getting insurance.** The average annual cost of a family group insurance premium in Texas today is about $13,000, so:

- the maximum family penalty of $2,250 would be about one-sixth of the cost of insuring a family; and
- a family would have to make more than $650,000 a year before 2% of income would cost as much as getting the family insured.

**Employer Responsibility.** There is no across-the-board employer mandate to provide insurance under Senate bill.

- **Small employers are exempt.** Companies with 50 or fewer workers would have no new health insurance requirements.
- **Penalties targeted to firms whose workers need premium assistance, and are a fraction of the cost of insuring workers.** Employers with more than 50 workers will be assessed a yearly fee of $750 per full-time employee if (1) they do not offer coverage and (2) they have at least one employee who gets premium assistance from an Exchange.
- Employers with 50 or more staff that do offer coverage but have at least one employee who receives a premium credit through an Exchange (i.e., because the worker's premium share exceeded 9.8% of family income) would be required to pay the lesser of $3,000 for each employee getting premium assistance, or $750 for each of the firm's full-time employees.
    - The average insuring Texas employer today pays 68% of the cost of a family premium, or about $8,840 of a $13,000 family premium. The $3,000 maximum penalty would be just over one-third of the cost of insuring a worker with family coverage.
    - Employers with 50 or more staff that offer coverage will also be required to allow employees with incomes below 400% of the FPL to use their employer contribution to buy coverage in the Exchange, if the worker's share of the premium cost is between 8% and 9.8% of family income. There is no penalty for the employer in these cases.
- **Tax credits to make coverage more affordable for small businesses.** Small businesses with 25 or fewer employees and average annual wages less than $50,000 could get a tax credit if they provide coverage and pay at least half of the premium cost. Credits of up to 35% of the cost of coverage would be available from 2010-2013. Starting in 2014, two-year credits of up to 50% of the employer's cost will be available for exchange-based coverage. Non-profit organizations that meet similar requirements are also eligible for credits of up to 25% before 2014 and 35% in 2014 and thereafter.

## Wide Range of Cost-Control Measures

The Senate bill includes a wide range of measures to restructure the U.S. health system to improve quality and slow the growth of health care costs, particularly Medicare costs. The bills initiate the changes that health policy experts consider most promising to "bend the curve"—reduce the growth of health care spending. "*The bills contain no shortage of ideas for reforming the delivery system, enhancing the quality of care, and slowing spending. Pretty much every proposed innovation found in the health policy literature these days is encapsulated in these measures,"* John Iglehart, founding editor of Health Affairs, recently wrote in the New England Journal of Medicine.

For a comprehensive review of quality and cost reform provisions see this new report from the Center on Budget and Policy Priorities, the Kaiser Family Foundation's excellent bill analyses, and several recent reports from the Commonwealth Fund.

**What Can You Do?**

Sticking with the status quo is not an option. Runaway health care costs are bankrupting our families, our businesses, and our country. With 6.1 million uninsured—including one in three working-age adults—Texas has too much at stake in the health reform debate to give up simply because the legislative process and media coverage have not succeeded in educating the general population about the basic building blocks of, and profound benefits from proposed reforms.

CPPP and our Texas Voice for Health Reform project encourage you to educate your communities, congregations, co-workers and families today by spreading this information as widely as possible. We can support you in educating others by offering speakers to inform groups of Texans about what is in this legislation, provide materials like calls to action, scripts for calling elected officials, talking points on health reform, Power Point presentations, and any other resources you request. Email your requests to us at quongcharles@cppp.org or call (512) 320-0222 and choose extension 102, 115 or 117.

Now is the time for every Texan to engage in this debate! Health reform is too important to our state to allow this debate to continue without people learning the facts about what reform has to offer, and what is at stake for Texas.

**To learn more, sign up for e-mails, or make a donation, go to www.cppp.org.**