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HEALTH REFORM WILL BOOST TEXAS SMALL BUSINESSES AND STATE ECONOMY

Passing health reform isn't just the right thing to do because it will cover many of the uninsured; it will also create tremendous economic benefits for Texas families and small businesses. Health reform makes health insurance coverage more secure, 1) reducing bankruptcies caused by medical bills, 2) allowing entrepreneurs to start new ventures without fear that leaving a current job will mean losing health coverage, and 3) letting small firms operate without providing health benefits while ensuring that their employees still have access to high-quality affordable coverage. Health reform also slows the growth in health care costs, 1) reducing the federal deficit, 2) shoring up Medicare, and 3) allowing employers to increase wages, hire new employees, or make other investments in their business with money that would otherwise be eaten up by skyrocketing health insurance premiums. This *Policy Page* examines the many economic benefits of health reform. For an overview of provisions in the Senate health reform bill, see at the recent CPPP publication What's in the Health Reform Bills?

- **Health reform will result in the creation of 250,000 to 400,000 new jobs each year and higher wages for workers as businesses realize reduced health care costs.**
- **Small businesses that prefer not to sponsor a heath plan will face no penalties and be assured that their workers have guaranteed access to good coverage in the Exchange.**
- **Entrepreneurs no longer tied to their jobs for fear of losing coverage or facing pre-existing condition exclusions will be able to start new businesses.**

Slows Health Care Cost Growth

Spending on health care in the United States is estimated to have reached $2.5 trillion (or 17.3 percent of gross domestic product) in 2009, and absent comprehensive health reform, is projected to grow to $4.5 trillion (19.3 percent of GDP) in 2019.[1] Health insurance premiums in Texas more than doubled over the last decade, and if no meaningful reforms are passed, projections show premiums nearly doubling again by 2020.[2] This rate of increase is unsustainable for employers, families, and governments.

The Senate health reform bill contains many provisions that will slow the growth in health care costs and health insurance premiums by:

- Lowering insurance administrative costs for individuals and small to mid-sized businesses through the creation of Health Insurance Exchanges and by prohibiting insurers from using health status to deny coverage or set premiums;
- Slowing the growth in health care costs overall (often referred to as "bending the cost curve") by changing existing incentives that reward medical care providers for performing more procedures to instead reward high-value, effective care; and
- Taxing the highest-cost health insurance plans, which will provide insurers and employers with a strong incentive to reduce premiums and excessive coverage, and instead provide high-value coverage that encourages cost-conscious use of health care services.[3]

As noted in the following quotes from health care experts, the health reform bills in front of Congress contain a wide range of promising ideas designed to bend the curve.[4]

> ***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*, *New England Journal of Medicine*, November 11, 2009

> ***Many, if not most, of the credible ideas that health policy analysts or economists have dreamed up over the past two decades for bending the cost growth curve or improving the quality of American health care are in the bills.***
>
> Timothy S. Jost, professor of health law, Washington and Lee University, *Health Affairs* blog, December 21, 2009

Creates Jobs and Increases Wages

Constant premium growth forces employers who provide benefits to forego other investments in their business, like new hires, and has also contributed to the stagnating wages many middle-class families in Texas and across the nation faced this decade. Wages and health benefits are both part of an employee's total compensation. To pay for the rapid rise in premiums, employers redirect money that otherwise could go to raises or retirement contributions. Employers and workers who have maintained health benefits as premiums skyrocketed have done so, in part, through sacrifices in job creation, wage growth, and other business investments.

As health reform slows health costs faced by employers, businesses will be able to create more jobs. Economists from Harvard and the University of Southern California have estimated that health care reform will result in the net creation of 250,000 to 400,000 additional jobs each year over the next decade.[5]

The excise tax on high-cost insurance will encourage employers to shift compensation provided as expensive insurance to wages instead. MIT economist Jonathan Gruber estimates that the excise tax will result in $234 billion in increased net worker wages from 2013 to 2019, or an extra $690 in wages for each employer-insured household by 2019. We have seen lower health care costs lead to increased wages in the recent past, as Gruber explains:

> ***And when firms reduce their insurance generosity, they make it up in higher pay for their workers. We saw this in the late 1990s, when the rise of managed care temporarily lowered insurance costs, and wages rose in real terms for the first time in many years. But as soon as managed care was weakened and health costs rose again, we once again saw flat or declining real wages in the United States.***[6]

Encourages Entrepreneurship and Innovation

Uncertain access to coverage keeps many Americans from changing jobs or starting new businesses, for fear of losing their existing job-based coverage or facing pre-existing condition waiting periods. This "job lock" keeps people from moving to jobs that better match their skills or interests and is estimated to cost working families $3.7 billion a year in foregone wages.[7] Health reform would end job lock and free Americans to switch jobs or start new businesses by ensuring that quality, affordable care is available to every individual and family, regardless of what kind of work they do. This will spur entrepreneurship and innovation as talented workers start their own businesses. It also increases the pool of workers available to small businesses, which are often unable to afford to offer coverage and therefore less able to compete with larger firms for the most-qualified employees.

Increases Access to Coverage for Small Businesses and Their Employees

The current system of health coverage puts small employers at an enormous disadvantage, which results in small employers paying 18 percent more on average for the same coverage as large employers. In Texas, small businesses are subject to big premium mark-ups if they have fewer than 10 employees, employees with health conditions, or older employees. Texas Department of Insurance data show some small firms pay as much as $1,900 *per employee* per month for coverage. These maximum rates for small businesses are nearly five times the average small business rate and more than two-and-a-half times the maximum rates paid by large employers.[8] And small employers know that even if they can afford coverage this year, if just one employee gets sick or injured, they may not be able to afford the increased cost of coverage the next year.

With only one-third of Texas businesses with fewer than 50 workers able to provide coverage today, Texas small business owners and employees may stand to gain the most of all from health reform. **The Senate bill does NOT require any employer to offer coverage and exempts all small employers with 50 or fewer workers from penalties faced by larger business if workers get subsidized coverage in the Health Insurance Exchange. It is critical to note that, under reform, small firms that <u>want</u> to sponsor health benefits would have a guaranteed source of stable, quality coverage, while firms that prefer <u>not</u> to sponsor a heath plan will know that their workers are guaranteed access to the same good coverage through the Exchange and will not be penalized for that choice.** Health reform bills contain several provisions that will help small businesses either buy or make that coverage available to their employees. Specifically, the Senate bill:

- Provides $40 billion in tax credits to qualified small businesses and non-profit organizations to help them afford coverage. The smallest firms with relatively low average wages would be eligible for the maximum credit of 50 percent of their cost for insurance. The Congressional Budget Office estimates that, on average, these tax credits will reduce premiums for eligible small employers by 8-11 percent.[9]
- Prevents insurers from charging small employers more for coverage based on employees' pre-existing conditions or increasing rates if a worker gets sick. It also prevents insurers from setting premiums based on gender, business size, or industry classification, and limits the amount insurers can raise premiums as workers age.
- Allows small and mid-sized businesses to purchase stable and secure coverage through the new Health Insurance Exchanges, where insurers will compete for businesses by offering clear information on price, quality, and benefits.
- Allows employees of businesses to buy high-quality coverage directly through the exchange if their employer does not offer coverage, greatly increasing access to coverage for workers at small businesses.
- Increases productivity of small businesses. Coverage gains among workers at small businesses translate into reduced sick days and disabilities.[10]

Helps Families Get Ahead

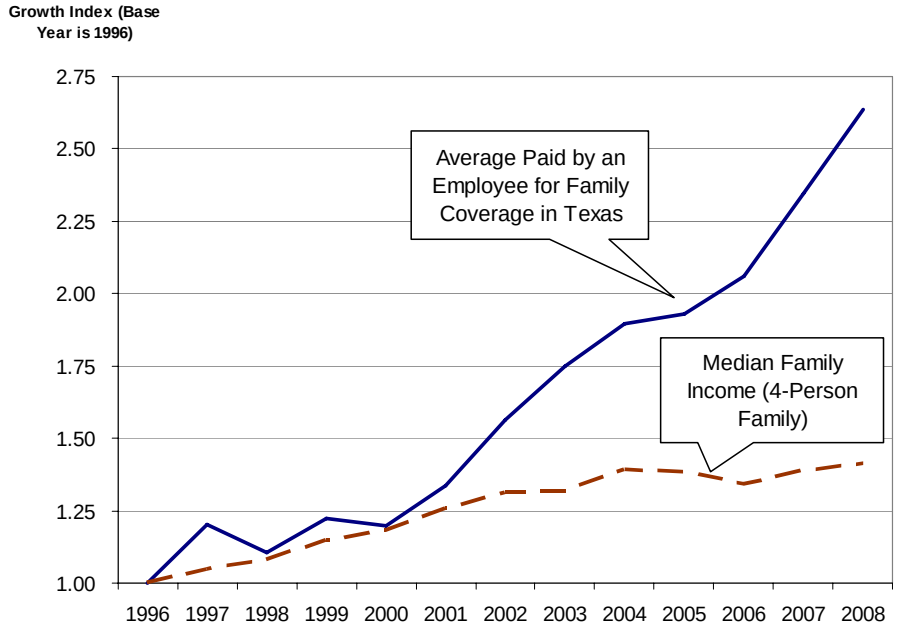
Families in Texas and across the country struggle to find and afford quality health insurance coverage. Premiums in Texas are growing 4.6 times faster than median incomes, leaving middle-class families further behind each year.[11] On top of that, eroding coverage forces families to shoulder growing medical costs out of pocket. The average deductible for family coverage increased 44 percent over the last three years,[12] and the number of working-age Americans at all income levels who must spend more than 10 percent of their income on out-of-pocket health costs nearly doubled from 2003 to 2007, from 8.9 million to 17.2 million people.[13]

Affordable, quality coverage is a necessary component of family economic security. Unlike food, shelter, transportation, and education, the cost of needed health care varies significantly across otherwise similarly situated families. Health costs are a

"wild card" in family budgets, even for families *with* insurance coverage. Forty-one percent of working age Americans, or 72 million people, report having had trouble paying a medical bill or have racked up medical debt in the last year, and 61 percent of them had insurance.[14] More than 60 percent of family bankruptcies are due, at least in part, to medical problems, and three-fourths of these bankruptcies are filed by people with health insurance.[15] Families that face mounting medical costs struggle to afford other necessities like food and housing. Nearly half of home foreclosures in 2006 were caused by financial issues related to medical problems.[16]

Health Insurance Premiums Less Affordable Every Year

Growth Rate of Premiums Compared to Incomes in Texas, 1996 to 2008



Source: Medical Expenditure Panel Survey-Insurance Component; and U.S. Census Bureau.

Note: MEPS data were not collected in 2007. Annual changes in employee contribution for coverage shown from 1996-2006, then change from 2006-2008.

Both House and Senate health reform bills provide relief from rising premiums and protection from financial ruin when people get sick. Specifically, the Senate bill includes the following important financial protections for families at all income levels:

- **Prohibits lifetime and annual dollar limits on coverage**, keeping coverage from "running out" in cases of serious illness.
- **Caps the amount insurance policies force people to spend out-of-pocket** on deductibles and coinsurance at $5,950 a year for individual coverage and $11,900 a year for family coverage.
- **Requires that all coverage sold through the Exchange cover "essential benefits,"** protecting families from stripped down, bare-bones policies that do not meet their medical needs and leave them exposed to uncovered costs.
- **Reins in skyrocketing premium growth.** By 2019, the average cost of family coverage is projected to be $1,900 a year less than it would have been without reform.[17]

In addition to all of the protections listed above, the Senate bill contains the following extra financial help for families with low- and moderate-incomes (under $43,000 a year for an individual or $88,000 a year for a family of four).

- **Sliding-scale premium assistance** to help low- and moderate-income families afford coverage in the Exchange. The Congressional Budget Office estimates that on average, families who get premium assistance will pay less than half of the cost of coverage they would face absent reform.[18]

- **Sliding-scale caps on total out-of-pocket medical costs** that families must shoulder.

Makes Coverage Secure and Stable

Most Texans with health insurance coverage get it though their job or their spouse's job, or for children, through their parent's job. But having job-based coverage today no longer guarantees that you will have it tomorrow; hard-working families lose access to job-based coverage during typical life changes, including when:

- **Employers have to drop coverage.** As premiums have skyrocketed, the percentage of Texas businesses offering coverage declined from 53 percent in 2000 to 49 percent in 2008.[19] This long-term erosion has almost certainly accelerated in the current recession.

- **Workers are laid off or have their hours reduced, or businesses close down altogether.**

- **Workers switch to new jobs** that do not offer coverage or retire early before Medicare coverage begins.

- **Family composition changes.** Whether a child ages out of coverage or through divorce, changing family composition affects access to job-based coverage.

- **Premiums become too expensive** forcing families to drop coverage.

People who do not have access to job-based insurance and must try to buy it in the individual market, directly from an insurance company, find themselves in an even more precarious position. This includes the self employed, people who have lost jobs in the recession, recent graduates, stay-at-home parents, people who work for businesses that do not offer coverage, early retirees, etc. Coverage in the individual market on average is much less generous, *if* you can get it. Insurers routinely turn down applicants with pre-existing conditions in the individual market or charge them much higher premiums. Insurers in the individual market also charge more or deny coverage based on a consumer's age, gender, and occupation.

Both health reform bills contain several provisions that will make coverage much more reliable and secure. Specifically, the Senate bill:

- **Prevents insurers from denying or charging more for coverage based on pre-existing conditions.** It also prevents insurers from setting premiums based on gender and limits the amount they can raise premiums as we age.

- **Creates a health insurance exchange,** a new marketplace for coverage that will provide high-quality coverage options for individuals who do not have job-based coverage, for example, when people age off their parent's coverage, lose a job, start their own business, retire before Medicare age, etc.

- **Requires all members of Congress to get their health insurance through the same health insurance exchange** available to individuals and small to mid-sized businesses.

- **Allows children to stay on their parent's coverage until they turn 26.**

- **Prevents insurance companies from revoking coverage after people get sick.**

- **Balances Personal Responsibility with Affordability.** Penalties for not meeting individual and employer responsibilities under the Senate bill are only a fraction of the cost of buying or providing insurance. Common-sense exemptions protect the poor and those facing financial hardship, and businesses with 50 or fewer workers. 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 turn to if they are sick or injured while uninsured.

Strengthens Medicare to Help Seniors

Medicare Part B premiums have more than doubled since 2000. In 2010, Medicare Part B and Part D premiums together are estimated to consume about 12 percent of the average Social Security benefit. On top of premiums, seniors must pay out-of-pocket deductibles and coinsurance, which is estimated to take an additional 15 percent of the average Social Security benefit. Taken together, premiums and out-of-pocket costs eat up 27 percent of the average Social Security check today, and absent meaningful reform, by 2025 that will grow to 35 percent, making it increasingly difficult for seniors to afford health care.[20] Already, many seniors who fall into the "doughnut hole" gap in Medicare Part D coverage—in which enrollees must pay for the full cost of prescriptions— struggle to afford needed medications.

Seniors who are not yet Medicare eligible and do not have access to employer-sponsored health insurance (like early retirees or the self-employed) are likely to encounter barriers trying to buy coverage on in the individual market, where coverage can be denied or premiums increased based on a person's health status or age.

Health reform bills improve Medicare coverage and increase access to coverage for seniors who are not yet Medicare eligible. Specifically, the Senate bill:

- **Shrinks the doughnut hole** by $500 in 2010 and provide 50% discount on brand-name drugs in the remaining coverage gap, greatly reducing the cost of prescriptions for seniors.
- **Adds new benefits to Medicare,** including a comprehensive annual check-up and other preventive services that are provided with no out-of-pocket costs.
- **Helps shore up Medicare's long-term financing.** Extends the solvency of the Medicare Trust Fund by five years by reducing the growth of health care costs in the program.
- **Guarantees access to coverage for older workers and early retirees who are not yet Medicare eligible.** Insurers in the exchange will be prohibited from denying coverage or basing rates on pre-existing conditions and limited in the amount they can increase premiums as people age.

Reduces the Federal Deficit

Spiraling health care costs present the single greatest challenge to long-term fiscal balance in the federal budget.[21] Comprehensive health reform is a necessary step to improve the nation's fiscal footing. According to the nonpartisan Congressional Budget Office (CBO), both chambers' health reform bills reduce the federal deficit in both the short-term and long run, and the Senate bill:

- Reduces the federal deficit by $132 billion from 2010 through 2019;
- Further reduces federal deficits in the following decade, 2020-2029, by one-quarter to one-half percent of gross domestic product (GDP), yielding between $650 billion to $1.3 trillion in deficit reduction over the decade; and

- Slows the rate of growth in health care costs over time. In Medicare, the largest component of federal health spending, CBO projects that the bill will result in an inflation-adjusted 2 percent annual growth rate in Medicare spending per beneficiary over the next two decades, a rate that is half the 4 percent growth rate experienced over the past two decades.[22]

Creates Billions in State Economic Activity

In Texas, personal health care spending accounts for about 12 percent of the gross state product, with almost 70 percent of state health spending going to hospitals and doctors.[23] Every federal dollar that is added to the Texas budget for expanded health care through Medicaid: (1) reduces the need for local government funding of indigent care programs, and (2) spurs measurable additional economic activity, jobs, and wages. Increased Medicaid federal funding that is paid to a hospital, doctor, or pharmacy has a "multiplier effect" when it is then turned around in the local economy through increased business activity, jobs, and wages that would not otherwise exist. Texas economist Dr. Ray Perryman has estimated (as have many other economists) that federal matching dollars from Medicaid have a short-term economic multiplier effect of 3.25—every 1 extra federal dollar spent on Texas Medicaid will result in $3.25 worth of near-term, local economic activity.

The Senate bill expands Medicaid to all U.S. citizens under age 65 with incomes up to 133 percent of the federal poverty level (income of $14,400/year for an individual or $29,300/year for a family of four). In Texas, this will add about one million uninsured adults to Medicaid. The Medicaid expansion is fully federally funded for the first three years (2014-2016). Starting in 2017, the state would start paying for about 5 percent of the cost of the expansion, which would increase to about 6 percent in 2018, and top out at about 7 percent in 2019 and thereafter. In other words, for every one dollar the state spends on the Medicaid expansion, it will receive 18 federal dollars in 2017, 15 federal dollars in 2018, and 13 federal dollars in 2019 and thereafter.

This expansion, while not "free" for Texas, will yield substantial economic benefits for the state as billions of federal dollars are pumped into the Texas economy.

- Using a static model based on current Census and Medicaid data, by covering 1 million new adults per the Senate's bill, Texas would receive $3.4 billion a year in new federal funding that, due to the multiplier effect, will drive over $10 billion in state business activity.

- On top of increased state economic activity, Perryman notes that increased federal funding for Medicaid results in increased state tax revenues, decreased need for local taxes, reduced insurance premiums, reduced direct uncompensated care; reduced out-of-pocket medical costs for individual Texans and businesses; and reduced cost-shifting inflation of health care prices.[24]

- The Texas economy will also benefit from federal premium assistance and out-of-pocket cost help extended to families from 133% to 400% of the federal poverty level, with no state match required. The size of this fiscal benefit is challenging to project, but will certainly be substantial given the large number of uninsured Texans in that income range (from 2 to 2.3 million uninsured U.S. citizens) who would qualify for subsidies.

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 on health care reform. 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. Please let us know how we can help you. 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.

[1] Centers for Medicare & Medicaid Services, Office of the Actuary, National Health Expenditure Projections 2009-2019, February 2010, National Health Expenditure Projections 2009-2019, February 2010, www.cms.hhs.gov/NationalHealthExpendData/03_NationalHealthAccountsProjected.asp.

[2] Cathy Schoen, Jennifer L. Nicholson, and Sheila D. Rustgi, "Paying the Price: How Health Insurance Premiums Are Eating Up Middle-Class Incomes," The Commonwealth Fund, August 2009, www.commonwealthfund.org/Content/Publications/Data-Briefs/2009/Aug/Paying-the-Price-How-Health-Insurance-Premiums-Are-Eating-Up-Middle-Class-Incomes.aspx.

[3] The excise tax on "Cadillac" health plans has stirred one of the most contentious debates in health reform. One of the primary arguments against it is that it also taxes "Chevy" plans that charge Cadillac prices because enrollees in them are older or sicker (not because the benefits are overly generous). An agreement made between labor leaders and the Administration on changes to the excise tax addresses many of the concerns about the tax while still maintaining its ability to slow the growth in health care costs. For more information see Paul N. Van de Water, Center of Budget and Policy Priorities, Changes to Excise Tax on High-Cost Health Plans Address Criticisms, Retain Long-Term Benefits, www.cbpp.org/cms/?fa=view&id=3060.

[4] Quotes compiled in Paul N. Van de Water, Center of Budget and Policy Priorities, *Health Reform Essential for Reducing Deficit and Slowing Health Care Costs*, February 3, 2010. For more information on how health reform bends the cost curve see David Cutler, Karen Davis, and Kristof Stremikis, *Why Health Reform Will Bend the Cost Curve*, The Commonwealth Fund and the Center for American Progress Action Fund, December 2009, www.commonwealthfund.org/Content/Publications/Issue-Briefs/2009/Dec/Why-Health-Reform-Will-Bend-the-Cost-Curve.aspx.

[5] David Cutler and Neeraj Sood, *New Jobs through Better Health Care*, Center for American Progress and Leonard D. Schaeffer Center for Health Policy and Economics, January 2010, www.americanprogress.org/issues/2010/01/pdf/health_care_jobs.pdf.

[6] Jonathan Gruber, "'Cadillac' tax isn't a tax -- it's a plan to finance real health reform," op-ed, Washington Post, December 28, 2009.

[7] Council of Economic Advisors, *The Economic Case for Health Care Reform*, June 2009, www.whitehouse.gov/assets/documents/CEA_Health_Care_Report.pdf.

[8] Texas Department of Insurance, 2006 Group Accident and Health Insurance Survey.

[9] Douglas W. Elmendorf, Congressional Budget Office, Letter to the Honorable Evan Bayh, November 30, 2009.

[10] Council of Economic Advisors, *The Economic Case for Health Care Reform: Update*, December 14, 2009, www.whitehouse.gov/sites/default/files/microsites/091213-economic-case-health-care-reform.pdf.

[11] Families USA, "Costly Coverage: Premiums Outpace Paychecks in Texas," September 2009, http://www.familiesusa.org/assets/pdfs/costly-coverage/texas.pdf.

[12] For employer-sponsored family coverage in a PPO plan, the most common type of coverage plan. Kaiser Family Foundation and Health Research & Educational Trust, Employer Health Benefits Survey, 2006-2009, http://ehbs.kff.org/?page=abstract&id=2.

[13] Cathy Schoen, Sara R. Collins, Jennifer L. Kriss, Michelle M. Doty, "How Many Are Underinsured? Trends Among U.S. Adults, 2003 and 2007," *Health Affairs*, 27(4): w298-309, published online June 102008.

[14] Michelle M. Doty, Sara R. Collins, Sheila D. Rustgi, and Jennifer L. Kriss, Seeing Red: The Growing Burden of Medical Bills and Debt Faced by U.S. Families, the Commonwealth Fund, August 2008, www.commonwealthfund.org/usr_doc/Doty_seeingred_1164_ib.pdf?section=4039.

[15] David U. Himmelstein, Deborah Thorne, Elizabeth Warren, and Steffie Woolhandler, "Medical Bankruptcy in the United States, 2007: Results of a National Study," *The American Journal of Medicine*, Volume 122, Issue 8, pp. 741-746.

[16] Christopher Tarver Robertson, Rickard, Egelofhof, and Micheal Hoke, "Get Sick, Get Our: The Medical Causes of Home Mortgage Foreclosures," Health Matrix, Volume 18, pp. 65-105.

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[18] Douglas W. Elmendorf, Congressional Budget Office, Letter to the Honorable Evan Bayh, November 30, 2009.

[19] Agency for Healthcare Quality and Research, Medical Expenditure Panel Survey-Insurance Component.

[20] The 2009 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, www.cms.hhs.gov/ReportsTrustFunds/downloads/tr2009.pdf and America's Seniors and Health Insurance Reform: Protecting Coverage and Strengthening Medicare, HealthReform.gov, www.healthreform.gov/reports/seniors/index.html.

[21] Congressional Budget Office, *Key Issues in Analyzing Major Health Insurance Proposals*, December 2008.

[22] Douglas W. Elmendorf, Congressional Budget Office, Letter to the Honorable Harry Reid, December 20, 2009; and, Paul N. Van de Water, Center of Budget and Policy Priorities, *Health Reform Essential for Reducing Deficit and Slowing Health Care Costs*, February 3, 2010.

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