The United States Senate
Budget Committee

Health Care and the Budget: Options for Achieving Universal Health Coverage

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Submitted by

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Good morning, Mr. Chairman and distinguished members of the committee. I'm pleased to be here today on behalf of The National Association of Health Underwriters (NAHU), a professional trade association representing more than 20,000 health insurance agents, brokers and employee benefit specialists from all across America. Our members work on a daily basis to help individuals and employers of all sizes purchase health insurance coverage. They also help their clients use their coverage effectively and make sure they get the most out of the benefits they have purchased. NAHU is extremely concerned about the problem of the uninsured and how rising health care costs are impacting health insurance coverage in this country.

A great deal of national attention has been directed at finding a universal means of covering Americans' health care needs. As the cost of providing health care has skyrocketed, the cost of providing health insurance has also continued to rise. In 2006, health care spending in the United States exceeded $2 trillion and accounted for 15.9 percent of the Gross Domestic Product. These cost increases have had a serious impact on the employer-provided health insurance market, which is currently where most insured Americans obtain their coverage. Because health insurance costs for employers continually outpace the rate of inflation and employer-sponsored coverage has decreased in recent years, some advocates of universal coverage are looking at options that would eventually change the current focus away from employer-sponsored health insurance. Some who favor this approach suggest that, to be most effective, personal responsibility for being insured should be enforced through an individual mandate for the purchase of health insurance coverage. In contrast, others have suggested that the problem of the uninsured would be largely alleviated if all employers were required to provide coverage to all of their employees.

Employer Mandates

I would like to begin today with a discussion of proposed employer mandates for the purchase of health insurance. The most efficient and cost-effective way to provide health insurance coverage today is through the employer. This is not meant to imply that individual market coverage is inferior, but employer-sponsored coverage has a significant advantage in that it allows a natural

grouping of covered persons that allows for greater risk spreading, and it additionally controls the flow of people in and out of a plan, which keeps the cost of coverage lower. Group coverage ensures millions of people access to quality health insurance products, it reliably pays for those products, and results in many more insureds than if individuals were expected to apply separately. Finally, it provides an excellent vehicle for employer subsidization of the cost of coverage.

Providing health insurance for employees is an expensive endeavor but employers continue to offer it for a very important reason: to attract and retain the best employees. Their ability to do this fuels economic growth in many areas. Although many employers provide coverage, not all of them are able to do so and still keep their businesses intact. Those that do continue to offer coverage often struggle to provide health insurance benefits to employees as the cost of coverage continues to increase each year and must be balanced with needed job growth and increased pay for those already employed. Numerous studies have indicated that an employer mandate for health care expenditures will have a negative impact on wages, job creation and general economic growth. [1]

Enacting legislation that mandates employers to provide health insurance sets a dangerous precedent. Health insurance in this country has historically never been a right associated with employment, but instead has always been voluntarily provided by many employers as a benefit. The ability to offer, or to not offer, health insurance coverage and other employee benefits helps our nation's businesses attract the best workers, motivate and reward their existing employees, and compete with one another. Legislation that would make health insurance coverage an employment right, rather than an employee benefit, would hinder business-to-business competition, thereby driving prices up and the quality of services and products down for all Americans.

[1] A recent one was issued by the Employment Policies Institute in January of 2006. The study, conducted by Katherine Baicker, a member of the President's Council of Economic Advisers, and Helen Levy of the University of Michigan, found that if a typical employer mandate proposal was broadened to apply nation-wide, 45 percent of employees without insurance would see no increase in coverage. Instead, the mandate would cause job loss for over 315,000 Americans, and would principally impact low-skilled employees, since employers would be forced to cut jobs to control skyrocketing labor costs.

No matter what form an employer mandate takes, it always has the potential to harm American businesses and employees. Legislation specifically targeting our nation's largest companies may change its scope along the way to encompass smaller employers, impacting their ability to stay in business in the future. Measures that would force employers to spend certain dollar amounts or percentages of their payroll on health care costs merely provide a disincentive for responsible spending and health insurance rate containment. We should not, as a matter of public policy, contribute to the erosion of job opportunities for Americans and encourage health insurance costs to go up even further by enacting employer mandates.

Another concern NAHU has with employer mandate proposals is that most come with an opportunity for employers to "opt out" of providing coverage themselves, and instead pay into a government-sponsored plan or fund that would provide coverage to uninsured workers. Often termed a "pay or play" approach to mandating coverage, NAHU finds this approach objectionable for many reasons. In addition to our concerns about the employer-mandate component to such an approach, NAHU also opposes government-sponsored plans to provide coverage that could more adequately be provided by the private market. Other countries' experiences with government-run health insurance plans clearly show that because of their global budgeting process, they often have to deny care to those who may need it most through a system of rationing. In addition, the most up-to-date medical technologies may not be available either because there is literally not adequate equipment or because they can't afford to run the equipment they have. Often these systems shortchange physicians and other health care providers. In our country, Maine's current extremely costly experience with attempting to provide a government-sponsored plan for employers that competes with the private market through its Dirigo Choice program clearly shows that such plans contain hidden administrative costs that have a negative impact on the quality of patient care and coverage.

Medicare for All

While discussing government-run health care, it seems appropriate to address the several current legislative proposals that would expand access to Medicare to all Americans. Under each of these proposals currently under consideration, all Americans would have access to the same coverage that now covers our senior population, or a choice of a plan through the Federal

Employee Benefit Program (FEHBP). It should be noted that the cost of this type of proposal is extremely high, well beyond the scope of affordability.

But beyond that issue, even though we do not currently experience rationing in our Medicare program and seniors in most areas have a broad choice of providers and access to technology, the cost for expanding Medicare or FEHBP nationwide would absolutely require a global budget, even if accompanied by an employer mandate, an individual mandate, a tax increase, or all three. It would, in fact, be fiscally irresponsible to operate a program of that magnitude without projections and limits on spending. Our Medicare and Medicaid programs already constitute the largest health plans in the world and the Medicare Trust Fund is already expected to become insolvent in 2015. The thought of expanding this already troubled program without a global budget is not logical. And we've seen what a global budget has produced in other countries. We don't believe this is what the American public wants. In the richest country in the world, we should look to our private sector for solutions.

In addition to our concerns about financing, NAHU also has concerns about applying facets of Medicare's overall operations to the entire marketplace. By statute Medicare fixes prices. Generally, it does not negotiate with providers, and the program really does not make distinction for price, volume or quality. The amount of payments made under the Medicare program is a subject of constant Congressional and public debate, and this problem will only worsen if the covered population were to be expanded. In addition, coverage under Medicare is necessarily limited in scope and includes far fewer benefits than the average group health insurance policy held by the majority of Americans. Changes to Medicare's core benefits involve Congressional action and/or the federal regulatory process, which makes the program ill-equipped to quickly respond to changing consumer needs and medical best practices. While the program is designed to work with some type of private market supplement, and private market supplementation would certainly still be required under any potential expansion of Medicare, supplemental benefits are also highly regulated. It is our feeling that the majority of American health care consumers, who value choice and options above all, would in the long run be highly dissatisfied by such an expansion.

Individual Mandates

Another one of the proposed universal-coverage solutions often discussed is an individual mandate for insurance coverage. An individual mandate requires each citizen to have some type of health insurance coverage or face a penalty. Massachusetts became the first state to enact individual-mandate legislation in 2006, and the idea is currently receiving bipartisan attention in many other states and at the federal level.

NAHU feels that imposing an individual mandate that utilizes the private market is certainly an outside-of-the-box approach to reducing the number of uninsured Americans. This idea assumes people will take personal responsibility for their health care utilization and would help reduce the amount of "charity care" provided for the uninsured in this country through emergency rooms and other means, the cost of which is ultimately shifted to the private health insurance market. Often individual-mandate proposals are associated with a move away from employer-sponsored coverage, but they need not take that direction. A mandate to require individuals to carry coverage could allow coverage to be obtained in a variety of settings, including through an employer-sponsored plan.

However, the idea of an individual mandate does raise many questions and concerns that will need to be addressed, particularly in states where the health insurance regulatory environment is much different than the regulatory climate in Massachusetts. For example, will imposing an individual mandate do anything to reduce the rising costs of providing health care, and thereby the costs of providing insurance? Massachusetts still has some of the highest health insurance premiums in the nation, largely because the new program was put in place without addressing inappropriate regulations that were already in effect at the time its mandate was enacted.

Mechanics of an Individual Mandate—Access to Coverage and Impact on the Existing Individual Market

In order for an individual health insurance mandate to work, all people in the jurisdiction with the mandate must have equal access to health insurance coverage, including those purchasing coverage in the individual market. In Massachusetts, access to coverage is not an issue because state law already mandated that all health insurance coverage be issued on a guaranteed basis,

which means that no individual can be denied coverage based on any type of preexisting medical condition. Federal law mandates that health insurance coverage be issued on a guaranteed basis to small-employer groups, but there is no such federal individual or large-group mandate. In the majority of states, traditional individual health insurance is not issued on a guaranteed basis, so people can be turned down for coverage due to a preexisting medical condition to prevent adverse selection.

Although this sounds unfair, the ability to ask health questions of individual market applicants keeps the cost of coverage down for most people who purchase coverage. And even though they are not required to do so, most states have developed some way to provide uninsurable people with access to individual health insurance coverage. However, the way the majority of states provide for coverage for people with catastrophic medical conditions seeking individual market health insurance coverage is very different than in Massachusetts, and this way is not as easily aligned with an individual mandate. Thirty-three states provide coverage to medically uninsurable people through high-risk pools, which allow the costs for less healthy purchasers to be handled in a way that does not impact the cost of coverage for the majority of people who buy coverage in the individual market, and six others use a similar private mechanism known as a "carrier of last resort." The reason these states have gone a different route than Massachusetts is that the "guaranteed-issue" route has been found time and time again to raise individual health insurance rates, as it provides individuals with little incentive to purchase coverage unless they anticipate that they will need the benefit. [2]

Therefore, in most states an individual mandate would require some study as it relates to current laws and regulations. Additionally, high-risk pools would have to reassess their financing mechanism to allow for increased enrollment, perhaps through increased federal funding. Also, it is important to note that five states currently have no means at all of providing individual health insurance access to people with catastrophic medical conditions,

[2] High-risk pools offer comprehensive private-market coverage options that might not otherwise be available to individuals who have ongoing health conditions and do not have access to employer sponsored coverage. These individuals pay higher rates than other individual market consumers, but these rates are capped, generally at about 125-200 percent of the average individual market rate. Because rates are capped, and because the individuals that utilize the pool often have the highest possible loss ratios, premiums alone would never be sufficient to satisfy claims. Therefore, the 33 states that have created high-risk pools to serve their individual health insurance markets have also established additional funding mechanisms to offset pool losses.

and so the means of providing access to coverage in these states would have to be addressed on an immediate basis. Imposing an individual mandate in these states would be next to impossible without significant individual market restructuring.

Some may say that a simple way to address the issue posed by not having a guaranteed-issue and or community-rated individual market would be to change each state's individual health insurance regulatory structure so these measures exist. However, NAHU has observed that, in all states with guaranteed issue and the community-rating or modified-community-rating mechanisms, younger, healthier individuals and workers are penalized because insurance carriers cannot account accurately for these healthy risks. This causes much higher overall health insurance rates than in the states that allow for the use of underwriting based on insurable risk. In addition, since these laws make it much more difficult for health insurers to rate their products accurately, doing business in states with these requirements is much more costly. As such, fewer health insurers may offer plan options in these states, which limits consumer choice, reduces competition and leads to overall higher prices. An important goal of an individual mandate is to improve access and expand coverage in a state. Care would need to be taken to ensure that the market reforms needed to implement the mandate did not inadvertently create cost increases.

Subsidies

Price is the number-one reason Americans go uninsured. Seventy-one percent of the non-elderly uninsured and 97.5 percent of the non-elderly uninsured who go without coverage for more than one year indicate cost as the driving factor for their lack of coverage.[3] As such, if there is a mandate that individuals purchase health insurance coverage, then there will also need to be some type of assistance to those who cannot afford to purchase coverage independently.

A system of determining subsidy eligibility would need to be determined, as well a system of verifying that beneficiaries actually have the income limitations and meet the other criteria necessary to qualify for benefits. The example of TennCare, where Tennessee was spending $30 million to $40 million per year on ineligible enrollees during the height of the uninsured subsidy

[3] Congressional Budget Office. "How Many People Lack Health Insurance and for How Long?" May 2003. www.cbo.gov/showdoc.cfm?index=4210

program -- which nearly bankrupted the state -- shows why this step is necessary. Also, it will be important to address how to prevent "crowd-out," which occurs when individuals who actually have eligibility to obtain private employer-sponsored health insurance enroll in the public program instead.

Finally, in addition to the issues of the cost and structure of subsidies, an issue that needs to be addressed is how to encourage people to take advantage of the subsidized-coverage opportunities already being made available to them. Despite the free or subsidized health care programs available to many Americans, studies have shown that less than 50 percent actually participate. The federal government currently has a variety of large- and small-scale programs and measures in place to provide individuals with access to health insurance coverage, and we spend upwards of $99 billion per year to provide care for the uninsured[4] but many still don't participate. Research estimates that currently about half of eligible non-participants have private coverage and half are uninsured.

Penalties and Enforcement Issues

Any individual health insurance mandate must require the individuals seeking health care toobtain group health insurance through an employer or other means, purchase individual health insurance privately, or apply for the public health care assistance that is available. If the individual does not, the law must impose some form of penalty. The penalty and enforcement process, as well as the mechanism for certifying whether or not an individual actually has purchased the required coverage, all raise questions and concerns. In Massachusetts, the penalty, enforcement and certification process have all been attached to the state income tax. That mechanism has been widely suggested as a model for other states or the federal government. However, in nine states[5] there is either no income tax or no significant income tax; in these states, other methods would have to be utilized.

[4] Kaiser Family Foundation. *Daily Health Policy Report*. June 5, 2003. www.kaisernetwork.org

[5] Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming do not levy an individual income tax. New Hampshire and Tennessee only tax interest and dividend income.

Even if done strictly at the federal level, the income-tax method could prove to be problematic. First of all, millions of low-income individuals are exempt from state and federal taxes, so developing an enforcement mechanism for this target population is an issue. Another concern is that each year millions of Americans who should file tax returns do not, and millions more cheat on their income taxes or do not pay taxes owed. In 2003, the federal government admitted that Americans did not pay $311 billion in taxes owed.[6]

Would a state or federal income tax penalty even provide enough of a financial incentive to make people purchase coverage? The IRS indicates that the average federal refund amount for individuals is $2154[7], and state refund amounts are generally a fraction of the amount of a person's federal refund— far less than the cost of an individual health insurance policy.

How could health insurance coverage status be verified? Being uninsured to most individuals is a temporary situation. Just as many people spend some time during their lives as unemployed, many people go without health insurance for a short period. According to a Congressional Budget Office (CBO) study of the non-elderly population, approximately 45 percent of uninsured Americans go without coverage for four months or less.[8] So, depending on the time of year an individual was uninsured, the certification on an annually filed tax return could be inaccurate.

Finally, the most important consideration would be whether or not an individual mandate would lower the number of uninsured people in this country. State efforts to enforce an individual mandate for auto insurance provide an effective case study in this regard. In spite of car insurance mandates in 46 states and the District of Columbia, the Insurance Research Council released data in June of 2006 indicating that 14.6 percent of American motorists lacked car insurance in 2004. Even with a database to independently verify whether someone has the required insurance coverage, the percentage of uninsured motorists remains similar to the percentage of the population without health insurance.

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[6] CBS News. "IRS Pleads Poverty: Asks for Bigger Budget to Catch Cheats and Collect Billions Owed." August 4, 2004. www.cbsnews.com/stories/2004/08/04/politics/main633848.shtml

[7] Internal Revenue Service. *Tax Stats at a Glance.* www.irs.gov/taxstats/article/0,,id=102886,00.html

[8] Congressional Budget Office. "How Many People Lack Health Insurance and for How Long?" May 2003. www.cbo.gov/showdoc.cfm?index=4210

Conclusion

NAHU is extremely concerned about the problem of the uninsured and recognizes that there is no one solution to this massive societal problem. However, health insurance is expensive because of the high cost of health care. The driving factors impacting the cost of health care need to be addressed before any universal-access initiative could work. Solving the cost problem will require comprehensive solutions in order to benefit consumers, employers, providers and insurance carriers. NAHU believes competitive market forces will have the greatest positive impact on the cost of health care. Health care reforms need to build on the best aspects of the American health care system and unleash the creative power of a competitively driven marketplace.

Instead of an employer mandate and/or a state-sponsored fund or plan to pay for uninsured citizens, a more effective approach would be to address the real problem concerning health insurance coverage in America—rising health care costs. Rising costs are what is driving the increase in the number of uninsured Americans since they make it so difficult for both employers and individuals to purchase affordable health insurance products. Addressing this problem through market-based solutions, such as allowing the sale of varying products based on individual need, improving regulatory environments to make state health insurance markets more competitive, and providing tax credits and incentives so that more individuals and employers can afford to purchase coverage makes much more sense. Working with consumers to improve national wellness, raise awareness of health care pricing and reduction of unnecessary utilization of health care serviceswould also go a long way toward controlling health care cost increases.

I appreciate this opportunity to be here today and will be happy to answer any questions you have.