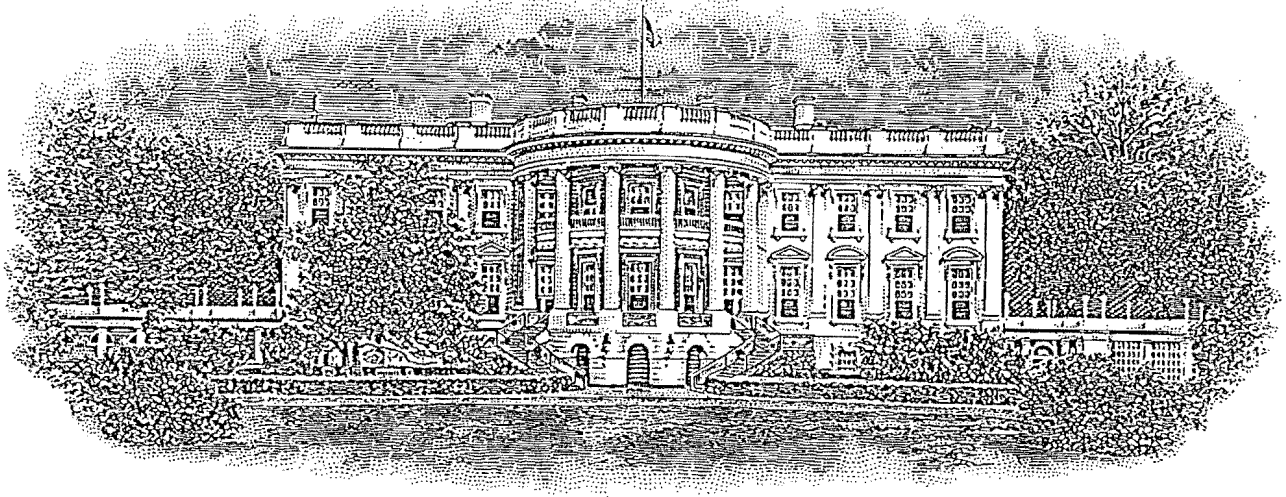


THE WHITE HOUSE
WASHINGTON, DC 20500



FAX COVER SHEET

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COMMENTS: FAXED EARLIER TO 2151

1 **SEC. ____ . HIGH COST HEALTH PLAN ASSESSMENT.**

2 (a) IN GENERAL.—Subchapter A of chapter 37 (re-
3 lating to assessments on insured and self-insured health
4 benefits), as added by section ____, is amended by adding
5 at the end the following new part:

6 **“PART II—HIGH COST HEALTH PLANS**

“Subpart A. Community-rated plans.

“Subpart B. Experience-rated plans.

“Subpart C. Definitions and special rules.

7 **“Subpart A—Community-Rated Plans**

“Sec. 4511. Community-rated plans.

“Sec. 4512. Reference premiums.

8 **“SEC. 4511. COMMUNITY-RATED PLANS.**

9 **“(a) IMPOSITION OF TAX.—**

10 **“(1) IN GENERAL.—**If a community-rated
11 standard health plan is a high cost plan for any cov-
12 erage period beginning after December 31, 1996,
13 there is hereby imposed a tax equal to 35 percent of
14 the excess premiums of the plan for the period.

15 **“(2) LIABILITY FOR TAX.—**The tax imposed by
16 this section shall be paid by the issuer of the high
17 cost plan.

18 **“(b) HIGH COST PLAN.—**For purposes of this
19 section—

20 **“(1) IN GENERAL.—**A plan is a high cost plan
21 for any coverage period if—

1 “(A) it is operating within a noncompeti-
2 tive community rating area, and

3 “(B) it has excess premiums for the pe-
4 riod.

5 “(2) NONCOMPETITIVE COMMUNITY RATING
6 AREA.—A community rating area is a noncompeti-
7 tive community rating area for any coverage period
8 if, for the preceding coverage period—

9 “(A) the average premium per primary in-
10 sured for all standard health plans in the area,
11 exceeded

12 “(B) the weighted average reference pre-
13 mium for all classes of enrollment.

14 “(c) EXCESS PREMIUMS.—For purposes of this
15 section—

16 “(1) IN GENERAL.—The term ‘excess pre-
17 miums’ means the excess (if any) of—

18 “(A) the premiums received under the plan
19 during the coverage period, over

20 “(B) the sum of the amounts determined
21 under paragraph (2) with respect to each class
22 of enrollment.

23 “(2) EXCESS PREMIUM BASELINE.—

24 “(A) IN GENERAL.—The amount deter-
25 mined under this paragraph for any class of en-

1 rollment for any coverage period is an amount
2 equal to the product of the reference premium
3 for such class and the number of primary
4 insureds in such class for the period.

5 “(B) PROPORTIONATE REDUCTION OF
6 REFERENCE PREMIUM.—The reference pre-
7 mium applicable under subparagraph (A) to an
8 individual who was a primary insured for only
9 a portion of the coverage period shall be propor-
10 tionately reduced to reflect the period the indi-
11 vidual was not a primary insured.

12 “(3) DISREGARD OF AGE ADJUSTMENT.—The
13 amount determined under paragraph (1)(A) shall be
14 adjusted to reflect the premiums which would have
15 been received if no age adjustment were permitted
16 under section 1116 of the Health Security Act.

17 “(d) COVERAGE PERIOD.—For purposes of this sub-
18 part, the term ‘coverage period’ means, with respect to
19 any community-rating area, the period for which an indi-
20 vidual is covered under a standard health plan if the indi-
21 vidual enrolls in the plan during the annual open enroll-
22 ment period for the area under section 1503 of the Health
23 Security Act.

24 “(e) PLANS COVERING MORE THAN ONE AREA.—
25 For purposes of this subpart, if a community-rated plan

1 covers individuals residing in more than 1 community-rat-
2 ing area, the individuals in each such area shall be treated
3 as covered by a separate plan.

4 **“SEC. 4512. REFERENCE PREMIUMS.**

5 “(a) ESTABLISHMENT OF REFERENCE PREMIUMS.—
6 For purposes of this subpart—

7 “(1) IN GENERAL.—The Secretary shall, in con-
8 sultation with the Secretary of Health and Human
9 Services, establish for each coverage period a ref-
10 erence premium for each class of enrollment for
11 community-rated plans within a community rating
12 area. The Secretary shall publish such reference pre-
13 miums within a reasonable period of time before the
14 annual open enrollment period for the coverage pe-
15 riod.

16 “(2) METHOD OF DETERMINING REFERENCE
17 PREMIUM.—Each reference premium for a class of
18 enrollment for any coverage period shall be the ref-
19 erence premium in effect for such class for the pre-
20 ceding coverage period—

21 “(A) increased by the target growth rate
22 for the coverage period as provided under sub-
23 section (b)(1), and

24 “(B) adjusted to reflect—

1 “(i) material changes in the charac-
2 teristics of community-rated individuals as
3 provided under subsection (b)(2), and

4 “(ii) changes in the actuarial value of
5 the standard benefits package as provided
6 under subsection (b)(3).

7 “(b) ANNUAL ADJUSTMENTS TO REFERENCE PRE-
8 MIUMS.—For purposes of subsection (a)(2)—

9 “(1) TARGET GROWTH RATE.—The target
10 growth rate for any coverage period is the percent-
11 age increase in the Consumer Price Index (as de-
12 fined in section 1(f)(4)) which the Secretary esti-
13 mates will occur during the coverage period—

14 “(A) increased by 2 percentage points (3
15 and 2.5 percentage points in the case of periods
16 beginning in 1997 and 1998, respectively), and

17 “(B) increased or decreased by the amount
18 the estimate under this paragraph was incorrect
19 for the preceding coverage period.

20 “(2) MATERIAL CHANGES.—

21 “(A) IN GENERAL.—The Secretary shall,
22 pursuant to such method as the Secretary may
23 prescribe, adjust the reference premium to re-
24 flect changes in the demographic characteristics
25 (including at least age, gender, and socio-

1 economic status) and health status of commu-
2 nity-rated individuals in the community rating
3 area which are materially different when com-
4 pared to the average changes in such character-
5 istics and status in the United States.

6 **["(B) EFFECT ON WEIGHTED AVERAGE.—**
7 Any adjustments under subparagraph (A) for
8 any coverage period shall not result in a change
9 in the weighted average of such factors which
10 is taken into account in computing the ref-
11 erence premium.]

12 **"(3) CHANGES IN BENEFIT PACKAGE.—**If the
13 actuarial value of the standard benefits package is
14 changed pursuant to subtitle C of title I of the
15 Health Security Act, the Secretary shall adjust the
16 reference premiums to appropriately reflect such
17 change.

18 **"(c) COMPUTATION OF REFERENCE PREMIUM FOR**
19 **1996.—**

20 **"(1) IN GENERAL.—**The Secretary, in consulta-
21 tion with the Secretary of Health and Human Serv-
22 ices, shall compute the reference premium for each
23 class of enrollment for 1996. Each such reference
24 premium shall be the reference premium which is
25 adjusted under subsection (a)(2) in determining the

1 reference premium for coverage periods beginning in
2 1997.

3 “(2) METHOD OF DETERMINING REFERENCE
4 PREMIUMS.—Each reference premium under para-
5 graph (1) shall be equal to the national average per
6 capita current coverage health expenditures for 1994
7 (determined under subsection (d))—

8 “(A) increased as provided in paragraph
9 (3),

10 “(B) adjusted to reflect the differences in
11 the community rating area as provided in para-
12 graph (4), and

13 “(C) modified to reflect the class of enroll-
14 ment for which it is being determined.

15 “(3) UPDATING FOR 1995 AND 1996.—The Sec-
16 retary shall update the national average per capita
17 current coverage health expenditures for 1994 to re-
18 flect the annual percentage increases for calendar
19 years 1995 and 1996 in private sector health care
20 spending for items and services included in the
21 standard benefits package. Such increase shall not
22 exceed the current projected increase in such spend-
23 ing for such years contained in _____
24 _____.

25 “(4) AREA ADJUSTMENTS.—

1 “(A) IN GENERAL.—The Secretary shall,
2 using information of the type described in sub-
3 paragraph (B), establish an adjustment for
4 each community rating area which takes into
5 account the differences among community rat-
6 ing areas, including variations in health care ex-
7 penditures, in rates of uninsurance and
8 underinsurance, and in the proportion of ex-
9 penditures for services provided by academic
10 health centers.

11 “(B) TYPE OF INFORMATION.—The type
12 of information described in this subparagraph
13 is—

14 “(i) information on variations in pre-
15 miums across States and across commu-
16 nity rating areas within a State (based on
17 surveys and other data);

18 “(ii) information on variations in per
19 capita health spending by State, as meas-
20 ured by the Secretary;

21 “(iii) information on variations across
22 States in per capita spending under the
23 medicare program and in such spending
24 among community rating areas within a
25 State under such program; and

1 “(iv) area rating factors commonly
2 used by actuaries.

3 “(C) CONSULTATION PROCESS.—The Sec-
4 retary shall consult with representatives of
5 States and community rating areas before es-
6 tablishing the adjustment under this subsection.

7 “(D) TREATMENT OF CERTAIN STATES.—

8 “(i) NONPARTICIPATING STATES.—In
9 the case of a State that is not a participat-
10 ing State or otherwise has not established
11 community rating areas, the entire State
12 shall be treated as a single community rat-
13 ing area.

14 “(ii) CHANGES IN BOUNDARIES.—In
15 the case of a State that changes the
16 boundaries of its community rating areas,
17 the Secretary shall provide a method for
18 computing reference premiums for each
19 area affected by such change in a manner
20 that—

21 “(I) reflects the factors taken
22 into account in establishing the ad-
23 justment factors under subparagraph
24 (A), and

1 “(II) results in the weighted av-
2 erage of the newly computed reference
3 premiums for the areas affected by
4 the change being equal to the weight-
5 ed average of the reference premiums
6 for the areas as previously established.

7 “(d) DETERMINATION OF NATIONAL AVERAGE PER
8 CAPITA CURRENT COVERAGE HEALTH EXPENDITURES.—

9 “(1) IN GENERAL.—The national average per
10 capita current coverage health expenditures are
11 equal to—

12 “(A) total amount of covered current
13 health care expenditures described in paragraph
14 (2), divided by

15 “(B) the estimated population in the Unit-
16 ed States of community-rated individuals as of
17 1994 (as determined under paragraph (4)) for
18 whom such expenditures were determined.

19 The population under subparagraph (B) shall not in-
20 clude SSI recipients or AFDC recipients.

21 “(2) COVERED CURRENT HEALTH CARE EX-
22 PENDITURES.—

23 “(A) IN GENERAL.—For purposes of para-
24 graph (1), the term ‘covered current health care
25 expenditures’ means the amount of total pay-

1 ments made in the United States during 1994
2 (determined without regard to cost sharing) for
3 items and services included in the standard ben-
4 efits package.

5 “(B) REMOVAL OF CERTAIN EXPENDI-
6 TURES NOT TO BE COVERED.—The amount de-
7 termined under subparagraph (A) shall be de-
8 creased by the proportion of such amount that
9 is attributable to any of the following:

10 “(i) Medicare beneficiaries.

11 “(ii) AFDC recipients or SSI recipi-
12 ents.

13 “(iii) Expenditures which are paid for
14 through workers’ compensation or auto-
15 mobile or other liability insurance.

16 “(iv) Expenditures by parties (includ-
17 ing the Federal Government) that the Sec-
18 retary determines will not be payable by
19 community-rated plans for coverage of the
20 standard benefits package.

21 “(C) ADDITION OF PROJECTED EXPENDI-
22 TURES FOR UNINSURED AND UNDERINSURED
23 INDIVIDUALS.—The amount determined under
24 subparagraph (A) (as adjusted under subpara-
25 graph (B)) shall be increased to take into ac-

1 count increased utilization of, and expenditures
2 for, items and services covered under the stand-
3 ard benefits package likely to occur, as a result
4 of coverage under a community-rated plan of
5 individuals who, as of 1994, were uninsured or
6 underinsured with respect to the standard bene-
7 fits package. In making such determination,
8 such expenditures shall be based on the esti-
9 mated average cost for such services in 1994
10 (and not on private payment rates established
11 for such services). In making such determina-
12 tion, the estimated amount of uncompensated
13 care in 1994 shall be removed and will not in-
14 clude adjustments to offset payments below
15 costs by public programs.

16 “(D) ADDITION OF HEALTH PLAN AND AL-
17 LIANCE COSTS OF ADMINISTRATION.—The
18 amount determined under subparagraph (A) (as
19 adjusted under the preceding subparagraphs)
20 shall be increased by an estimated percentage
21 (determined by the Secretary, but no more than
22 15 percent) that reflects the proportion of pre-
23 miums that are required for administration
24 [(including for administration of income-related
25 premium discounts and cost-sharing reduc-

1 tions)] and for State premium taxes (which
2 taxes shall be limited to such amounts in 1994
3 as are attributable to the health benefits to be
4 included in the standard benefits package).

5 “(E) DECREASE FOR COST SHARING.—The
6 amount determined under subparagraph (A) (as
7 adjusted under the preceding subparagraphs)
8 shall be decreased by a percentage that reflects
9 (i) the estimated average percentage of total
10 amounts payable for items and services covered
11 under the standard benefits package that will
12 be payments in the form of cost sharing under
13 a high deductible plan, and (ii) the percentage
14 reduction in utilization estimated to result from
15 the application of such cost sharing.

16 “(3) SPECIAL RULES.—

17 “(A) BENEFITS USED.—The determina-
18 tions under this subsection shall be based on
19 the standard benefits package as in effect in
20 1996.

21 “(B) ASSUMING NO CHANGE IN EXPENDI-
22 TURE PATTERN.—The determination under
23 paragraph (2) shall be made without regard to
24 any change in the pattern of expenditures that
25 may result from the enrollment of AFDC recipi-

1 ents and SSI recipients in community-rated
2 plans.

3 “(4) ELIGIBLE INDIVIDUALS.—The determina-
4 tion of individuals who are community-rated individ-
5 uals under this subsection shall be made as though
6 the Health Security Act was fully in effect in each
7 State as of 1994.

8 **“Subpart B—Experience-Rated Plans**

 “Sec. 4515. Experience-rated plans.

9 **“SEC. 4515. EXPERIENCE-RATED PLANS.**

10 “(a) IMPOSITION OF TAX.—

11 “(1) IN GENERAL.—In the case of any calendar
12 year beginning after December 31, 1999, there is
13 hereby imposed a tax equal to 25 percent of the ex-
14 cess premium equivalents of an experience-rated
15 standard health plan.

16 “(2) LIABILITY FOR TAX.—The tax imposed by
17 this section shall be paid by the plan sponsor.

18 “(b) EXCESS PREMIUM EQUIVALENTS.—For pur-
19 poses of this section—

20 “(1) IN GENERAL.—The term ‘excess premium
21 equivalents’ means the excess (if any) of—

22 “(A) the premium equivalents of the plan
23 for the calendar year, over

1 “(B) the product of the reference premium
2 and the number of primary insureds covered by
3 the plan during the calendar year.

4 “(2) PROPORTIONATE REDUCTION IN REF-
5 ERENCE PREMIUM.—The reference premium applica-
6 ble under paragraph (1)(B) to a primary insured
7 covered under the plan for only a portion of the cal-
8 endar year shall be proportionately reduced to reflect
9 the period the individual was not a primary insured.

10 “(c) REFERENCE PREMIUM.—For purposes of this
11 section—

12 “(1) IN GENERAL.—The reference premium for
13 any plan for any calendar year shall be the reference
14 premium in effect for the preceding calendar year—

15 “(A) increased by the target growth rate
16 for the calendar year as provided under para-
17 graph (2), and

18 “(B) adjusted to reflect—

19 “(i) material changes in the charac-
20 teristics of individuals covered by the plan
21 as provided under paragraph (3), and

22 “(ii) changes in the actuarial value of
23 the standard benefits package as provided
24 under paragraph (4).

1 “(2) TARGET GROWTH RATE.—The target
2 growth rate for any calendar year is the percentage
3 increase in the Consumer Price Index (as defined in
4 section 1(f)(4)) which the Secretary estimates will
5 occur during the calendar year—

6 “(A) increased by 2 percentage points, and
7 “(B) increased or decreased by the amount
8 the estimate under this paragraph was incorrect
9 for the preceding calendar year.

10 “(3) MATERIAL CHANGES.—The Secretary shall
11 establish such method as the Secretary determines
12 appropriate for adjusting the reference premium for
13 any plan to reflect changes in the demographic char-
14 acteristics (including at least age, gender, and socio-
15 economic status) and health status of individuals in
16 the plan which are materially different when com-
17 pared to the average changes in such characteristics
18 and status in the United States.

19 “(4) CHANGES IN BENEFIT PACKAGE.—If the
20 actuarial value of the standard benefits package is
21 changed pursuant to subtitle C of title I of the
22 Health Security Act, the Secretary shall adjust the
23 reference premiums to appropriately reflect such
24 change.

25 “(d) REFERENCE PREMIUM FOR 1999.—

1 “(1) IN GENERAL.—The reference premium for
2 calendar year 1999 shall be equal to the average of
3 the per capita premium equivalents for calendar
4 years 1997, 1998, and 1999. Such reference pre-
5 mium shall be the reference premium which is ad-
6 justed under subsection (c) for determining the ref-
7 erence premium for calendar year 2000.

8 “(2) PER CAPITA PREMIUM EQUIVALENTS.—

9 “(A) IN GENERAL.—The per capita pre-
10 mium equivalent for any calendar year shall be
11 equal to the premium equivalent for providing
12 the standard benefits package to each primary
13 insured.

14 “(B) GROWTH FACTORS.—The amount de-
15 termined under subparagraph (A)—

16 “(i) for calendar year 1997 shall be
17 increased by the target growth rates for
18 calendar years 1998 and 1999, and

19 “(ii) for calendar year 1998 shall be
20 increased by the target growth rate for cal-
21 endar year 1999.

22 For purposes of this subparagraph, the target
23 growth rate for calendar year 1998 shall be de-
24 termined by substituting ‘2.5’ for ‘2’ in sub-
25 section (c)(2)(A).

1 “(e) PREMIUM EQUIVALENTS.—For purposes of this
2 section—

3 “(1) IN GENERAL.—The term ‘premium equiva-
4 lents’ means, with respect to any calendar year, the
5 sum of—

6 “(A) expenditures described in subsections
7 (d) and (e) of section 4502 with respect to cov-
8 erage under the plan, and

9 “(B) in the case of any coverage provided
10 through an insurance policy, premiums paid for
11 such coverage.

12 “(2) EXCLUSION OF NONSTANDARD COV-
13 ERAGE.—The premium equivalents for any calendar
14 year shall not include amounts with respect to—

15 “(A) any coverage other than coverage for
16 the standard benefits package, or

17 “(B) any cost-sharing coverage.

18 “(3) RISK ADJUSTMENT PAYMENTS.—The pre-
19 mium equivalents for any calendar year shall include
20 payments under any risk adjustment program estab-
21 lished under title I of the Health Security Act.

22 “(f) SPECIAL RULES.—For purposes of this
23 section—

24 “(1) AGGREGATION RULES.—

1 “(A) PLANS.—All plans maintained by the
2 same plan sponsor shall be treated as 1 plan.

3 “(B) SPONSORS.—All plan sponsors which
4 are treated as a single employer under sub-
5 section (b) or (c) of section 414 shall be treated
6 as 1 plan sponsor.

7 “(2) STARTUP PLANS.—If a plan sponsor first
8 begins operation of an experience-rated plan after
9 1997, the reference premium for the first calendar
10 year for which the plan is in operation and to which
11 this section applies shall, under regulations pre-
12 scribed by the Secretary, be determined as if the ref-
13 erence premium for the preceding calendar year
14 were equal to the average of the average reference
15 premium for all experience-rated plans in the areas
16 in which the plan is operating for each of the 3 pre-
17 ceding calendar years.

18 “(3) ACQUISITIONS AND DISPOSITIONS.—The
19 Secretary shall prescribe regulations for the deter-
20 mination of a reference premium after an acquisition
21 or disposition described in section 41(f)(3) involving
22 the plan sponsor of an experience-rated plan.

23 “(4) INFORMATION.—The Secretary may re-
24 quire a plan sponsor of an experience-rated plan to
25 adopt such conventions as are necessary in its ac-

1 counting practices and financial records to assure
2 that only costs related to the standard benefits pack-
3 age are taken into account.

4 **“Subpart C—Definitions and Special Rules**

5 **“SEC. 4518. DEFINITIONS AND SPECIAL RULES.**

6 “(a) HEALTH PLANS.—For purposes of this part—

7 “(1) STANDARD HEALTH PLAN.—The term
8 ‘standard health plan’ has the meaning given such
9 term by section ____ of the Health Security Act, ex-
10 cept that such term does not include a plan offering
11 the alternative standard benefit package described in
12 ____ of such Act.

13 “(2) STANDARD BENEFITS PACKAGE.—The
14 term ‘standard benefits package’ has the meaning
15 given such term by section ____ of such Act.

16 “(b) COMMUNITY RATING AREAS AND PLANS.—For
17 purposes of this part—

18 “(1) COMMUNITY RATING AREA.—The term
19 ‘community rating area’ means an area established
20 under section 1502 of the Health Security Act.

21 “(2) COMMUNITY-RATED PLAN.—The term
22 ‘community-rated plan’ means a plan which is com-
23 munity-rated under section 1116 of such Act.

1 “(3) EXPERIENCE-RATED PLAN.—The term ‘ex-
2 perience-rated plan’ means any plan which is not a
3 community-rated plan.

4 “(c) PREMIUMS.—For purposes of this part—

5 “(1) IN GENERAL.—The term ‘premium’ has
6 the meaning given such term by section 4503(a)(3).

7 “(2) ADMINISTRATIVE COSTS.—Amounts re-
8 ceived for health-related administrative services (as
9 defined in section 4501(d)) provided in connection
10 with any standard health plan taken into account
11 under section 4511(c)(3) shall be treated as pre-
12 miums.

13 “(d) INSURANCE POLICY AND PLAN SPONSOR.—For
14 purposes of this part—

15 “(1) INSURANCE POLICY.—The term ‘insurance
16 policy’ has the meaning given such term by section
17 4503(a)(2).

18 “(2) PLAN SPONSOR.—The term ‘plan sponsor’
19 has the meaning given such term by section
20 4502(b)(2), except that in the case of a plan not de-
21 scribed in such section, such term means the person
22 or persons who establish or maintain the plan.

23 “(e) SPECIAL RULES.—For purposes of this part—

1 “(1) DEPOSITS.—The Secretary may require
2 deposits of any taxes imposed by subpart A or B at
3 such times as the Secretary determines appropriate.

4 “(2) GOVERNMENTAL ENTITIES SUBJECT TO
5 TAX.—The rules of section 4503(b) shall apply for
6 purposes of this part.

7 “(3) NO COVER OVER TO POSSESSIONS.—Not-
8 withstanding any other provision of law, no amount
9 collected under this part shall be covered over to any
10 possession of the United States.

11 “(f) REGULATIONS.—The Secretary shall issue such
12 regulations as are necessary to carry out the provisions
13 of this part, including regulations—

14 “(1) requiring the maintenance of such records,
15 and the reporting of such information as the Sec-
16 retary determines necessary, and

17 “(2) which provide that 2 or more plans of a
18 person or any related persons must be aggregated,
19 or a plan must be treated as 2 or more separate
20 plans.”

21 (b) CONFORMING AMENDMENTS.—

22 (1) Subchapter A of chapter 37, as added by
23 section ____, is amended by inserting after the sub-
24 chapter heading the following:

“Part I. Premium and related assessments.

“Part II. High cost health plans.

1 **“PART I—PREMIUM AND RELATED**
2 **ASSESSMENTS”.**

3 (2) Section 4503, as so added, is amended by
4 striking “subchapter” each place it appears and in-
5 serting “part”.

6 (c) **EFFECTIVE DATE.**—The amendments made by
7 this section shall take effect on January 1, 1996.