Withdrawal/Redaction Sheet
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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. memo	Chris Jennings to Hillary Clinton Re: Information You Requested on Moynihan/Mitchell Meeting and Buisnesses That Are Endorsing Us (8 pages)	2/17/94	P5

COLLECTION:
Clinton Presidential Records
Domestic Policy Council
Chris Jennings (Health Security Act)
OA/Box Number: 23754

FOLDER TITLE:
March 1994 HSA [2]

gf116

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advise between the President and his advisors, or between such advisors [a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

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b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

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Universal Coverage Possible With:

- Additional deficit reduction:
  - lower firm size threshold for community rating
  - better target business subsidies
  - provide more modest benefit package
- Effective cost control:
  - set initial health premium to prevent windfalls to insurers and providers
  - constrain rate of growth of health premiums
- Affordability for business:
  - adjust employer/employee share of health premiums
  - provide additional small firm protections

Health Security Act

Under the Health Security Act:

- o **Employer/Employee Share.** Before subsidies, employers pay 80 percent of average premium. Families pay no more than 20 percent of average plan.

- o **Employer/Individual Subsidies.** Subsidies may reduce premium payments. Firms under 5,000 pay no more than 7.9 percent of total payroll. Subsidies lower average employer payments to 68 percent of premiums. Households pay no more than 3.9 percent of income.

- o **Small Business.** Small firms (under 75) receive additional subsidies, paying no more than 3.5 percent to 7.9 percent of payroll, depending on firm size and average wage.

- o **Large Firms.** Firms with more than 5,000 employees which are outside the alliance pay 1 percent of payroll assessment.

Firm Size Threshold for Community Rating

- The Health Security Act (HSA) creates a community rated pool (or alliances) which includes all individuals except those in firms with over 5,000 employees. A health plan must charge the same price to everyone in the pool.

- Both employers and households in the community rated pool are eligible for federal subsidies designed to make their health care payments more affordable.

- Firms with more than 5,000 employees are permitted to stay outside the community rated pool. They are assessed 1 percent of payroll to help pay for community-wide expenses. The assessment also lessens the windfall these large firms receive under the HSA because the HSA will lower their health care costs by eliminating the surcharge for uncompensated care, spreading the cost of two worker families across all firms, and controlling health care costs.

- Reducing the firm-size threshold for participation in the community pool could generate additional savings in two ways:

  - If the firm size threshold for the community rated pool were reduced below 5,000, many firms which would have received subsidies under the HSA would no longer be part of the community pool and no longer receive federal subsidies. Prohibiting firms with 1,000 or more employees from employer subsidies, for example, would save $45 billion from 1996-2004 relative to the HSA.

  - Savings could also be achieved by lowering the threshold at which the corporate assessment is levied. For example, reducing the community pool threshold to 1,000 and collecting an assessment from all firms above the threshold would reduce 1996-2004 costs by $93 billion relative to the HSA.

Better Target Business Subsidies
Firm Payroll vs. Individual Wages

- The Health Security Act (HSA) caps the amount that employers would spend on health care premiums at 7.9 percent of their total payroll. For example, if an employer's total premium payment exceeds 7.9 of total payroll, the federal government will provide a subsidy to make up the difference.

- So, for a firm with a payroll of $500,000, the firm's total premium costs for its employees could not exceed $39,500.

- However, this firm might have a mix of highly paid and low–wage workers. By basing subsidies on <u>total</u> payroll, the HSA often subsidizes higher income workers.

- In order to better target employer subsidies to lower wage workers, one could modify the HSA employer subsidy cap so that it applies to each individual employee's wages, rather than the total wages of all employees in a firm.

- Under this system, employers would get subsidies for lower and moderate wage workers, but not for employees with higher incomes, because their premium costs would represent a much smaller percentage of their income.

- Better targeting employer subsidies to lower wage workers would reduce employer subsidy costs relative to the HSA. Capping employer premium costs at 12 percent of individual wages, for example, would save $137 billion in subsidies over from 1996–2004, while preserving the HSA level of protection for moderate income workers.

- For example, under HSA almost 50 percent of the costs of the employer subsidy benefits workers above 300 percent of poverty, while under the individual wage cap option less than 30 percent of the subsidy benefits workers above 300 percent of poverty. Although total business subsidies are reduced, the subsidies that go to workers under 300 percent of poverty are actually higher than under HSA.

Generosity of Benefits Package

- Many health benefit packages in the current marketplace offer roughly the same package of benefits. What differentiates one package from another is usually the level of out-of-pocket spending required by the individual.

- The Health Security Act (HSA) benefit package is comparable to the median benefits package for Fortune 500 companies.

- One can achieve savings relative to the HSA benefits package either by:

    - eliminating or cutting some of the services covered in the standard plan; or

    - increasing cost sharing by the individual.

- Reductions in services would have to be significant to generate meaningful savings.

- Modifying the cost sharing component could yield significant savings. For example, 1996–2004 HSA costs could be cut by $78 billion by:

    (1) increasing the annual out-of-pocket fee-for-service limit from the $1,500 level in the HSA to $2,500, (2) imposing a $250 deductible per hospital stay for HMOs; and (3) raising the HMO drug copay from the $5 HSA level to $10.

- Even the modest 5 percent reduction in premium value that results from this change in cost-sharing would reduce the package to the 35th percentile level of Fortune 500 plans.

Effective Cost Control

- Slowing the growth rate of health care costs is a fundamental goal of health care reform. Without comprehensive reform, health care costs are predicted to grow from 14 percent of gross domestic product (GDP) to over 20 percent of GDP by 2004. And that huge expenditure doesn't even address the problem of the uninsured.

- The proposed growth rates under HSA still allow for an average annual growth rate of 7.3 percent from 1996 through 2004. Without reform it would grow at an average annual rate of 8.4 percent. (NOTE: Relatively high growth occurs under HSA despite cost constraints because everyone pays premiums and many get broader coverage.)

- The HSA would slow the growth rate of health care costs over the long term by: streamlining administration, creating incentives for better and more efficient care delivery, making consumers cost conscious, and strengthening bargaining leverage for consumers.

- The HSA includes premium caps as a backstop to competition. These put pressure on health care providers and insurers to be more efficient or accept lower compensation and profits. The other way to assure affordability if competition fails would be to reduce benefits or raise out-of-pocket costs for families.

- Assuring affordability raises two issues:

    (1) What should be the premium level in the first year of reform, and

    (2) What should be the rate of increase thereafter.

- Failure to set an appropriate premium level in the first year could result in a huge windfall to the health industry at the expense of consumers and businesses. This is because current private insurance premiums have built in the cost shift from (1) uncompensated care and (2) lower rates of payment for Medicaid.

    - Today, when uninsured people use the health care system, they pay only 21 percent of their health care costs. This burden of uncompensated care is passed on to those individuals with private health insurance in the form of higher premiums. Currently the cost of caring for the uninsured accounts for about 8 percent of total premiums.

- Under health care reform, all Americans will have health insurance. There will be no "uncompensated care" costs for the health industry to pass onto the privately insured in the form of higher premiums. Thus, private insurance premium costs will no longer need to be inflated to cover the shortfall from the uninsured.

- In setting the initial premium level, the HSA assures that insurers and providers do not get paid twice for coverage of the currently uninsured. Instead, they are held harmless.

- The initial HSA premium also permits providers and insurers to <u>keep</u> the cushion they've built into their private rates to compensate for the cost shift from lower Medicaid payments.

- This way neither the private sector nor the federal government would be worse off, and the cost shift won't get worse.

o Once the initial level is set, future growth rates are also important. Some have expressed concern that the growth rates allowed under the HSA are too tight.

- Assuming the initial premium level is set at the HSA level, a proposal to slightly relax the HSA growth rate would not be prohibitively expensive. Allowing 1999 and 2000 premiums to grow by 1 percentage point more than the HSA would cost $16 billion from 1996–2004. (Note that in HSA, growth in 1999–2000 is at CPI plus population.)

- Allowing premiums to grow 1 percentage point more than the HSA rate every year would cost $74 billion from 1996–2004.

o If, on the other hand, the initial premium were not constrained, insurers and providers could receive windfalls, and federal costs could jump more than $200 billion above the HSA over 5 years.

Adjust Employer and Individual Share of Premium

- o HSA builds upon the employer–based system which effectively provides health insurance to most Americans. Today, on average, employers who pay for their workers insurance pay from 80 to 86 percent of health insurance premiums for their workers. The HSA requires that employers pay 80 percent of their employees' health care premiums and workers pay no more than the remaining 20 percent.

- o Employers and individuals may pay less than the required 80 or 20 percent share, however, because the HSA caps the premium payments at 7.9 percent of total payroll for employers and 3.9 percent of income for households. With these federal subsidies, average employer payments drop to 68 percent of premiums. (Smaller firms receive more generous subsidies.) For example, if an employer's total premium payment would have exceeded 7.9 of total payroll, the federal government will provide a subsidy to make up the difference.

- o Some have argued that, even with these employer subsidies, HSA places a disproportionate burden on businesses, particularly those firms which do not now provide health insurance to their employees.

- o To reduce the burden on businesses, one could reduce the employer share of health care premium costs below 80 percent. Lowering the mandatory level of businesses' costs would also reduce the need for federal employer subsidies.

- o But if employers' share of health care costs are reduced, for example, from 80 percent to 50 percent, it follows that the maximum worker shares would <u>increase</u> from the 20 percent HSA level to 50 percent of total premium. To keep health care costs affordable for individuals, federal subsidies to low and moderate income households would have to be increased relative to the HSA.

- o In all likelihood, many firms which currently pay in excess of 50 percent of their employees' health care premiums would continue to do so under this system, mitigating the need for additional subsidies for some individuals. But employees of firms which currently provide no health care coverage would have to pick up 50 percent of their total premium costs (compared to 20 percent under the HSA). Many of these individuals would need additional federal assistance to make health care affordable.

- Polling data indicates that the American public has substantial concerns about a proposal which splits the health burden 50/50 between employers and employees. By a 51 to 28 percent margin, Americans believe that this proposal would hurt rather than help their families. And by a 65 to 20 percent margin, Americans believe that employers will shift costs to employees rather than continuing to pay their current premium share.

Treatment of Small Firms

- The Health Security Act (HSA) helps small firms by providing subsidies that reduce the employer share of premium payments.

- Small, low-wage firms pay either the employer share of the premium or a flat percent of their payroll (ranging from 3.5 percent to 7.9 percent, depending on firm size and average pay), whichever is less.

- Some feel that these discounts are not sufficient to relieve the burden on small business. Additional relief can be provided by:

  - Increasing subsidies for small firms;

  - Lowering the employer share of the premium for small firms (e.g., from 80 percent to 50 percent); or

  - Eliminating the employer requirement on smallest firms.

- If additional small firm relief is deemed necessary, the first two option above are preferable because eliminating the employer requirement for the smallest firms:

  - Increases premiums for larger employers as they now assume the full cost of insurance for families with a worker in firms which are exempted.

  - Imposes an individual mandate on workers in exempt firms, possibly resulting in unacceptably high out-of-pocket health care expenses for those workers unless offset by higher government subsidies.

  - Increases the risk already present in the HSA for large firms to benefit from the exemption by splintering into smaller firms.

  - Creates high marginal cost (cliff) for expanding one's workforce above the exemption threshold.

  - Addressing the concerns outlined above would increase both business and government administrative burdens, particularly if there are attempts to moderate the cliff effect on hiring decisions.

- This shows that giving better protection to small firms means raising government subsidies and costs. And while many of you have expressed a desire to protect small businesses, you also want health care reform to reduce the deficit. These two goals are fundamentally in conflict.

Presentation of 4 Illustrative Models

- Now that we've gone through some of the pieces in the Health Security Act, I'm going to walk you through three models which illustrate how modifications to the HSA can:

  - achieve deficit reduction;

  - better target employer subsidies to low and moderate wage workers;

  - protect small businesses; but, on the downside,

  - substantielly increase subsidies if premiums are unconstrained.

- Before we start looking at the illustrative models, let me again walk through the major points of the Health Security Act, so you can see how these models differ from the HSA.

HEALTH SECURITY ACT:

- O <u>EMPLOYER/EMPLOYEE SHARE</u>. BEFORE SUBSIDIES, EMPLOYERS PAY 80 PERCENT OF AVERAGE PREMIUM. FAMILIES PAY NO MORE THAN 20 PERCENT OF AVERAGE PLAN.

- O <u>EMPLOYER/INDIVIDUAL SUBSIDIES</u>. SUBSIDIES MAY REDUCE PREMIUM PAYMENTS. FIRMS UNDER 5,000 PAY NO MORE THAN 7.9 PERCENT OF TOTAL PAYROLL. SUBSIDIES LOWER AVERAGE EMPLOYER PAYMENTS TO 68 PERCENT OF PREMIUMS. HOUSEHOLDS PAY NO MORE THAN 3.9 PERCENT OF INCOME.

- O <u>SMALL BUSINESS</u>. SMALL FIRMS (UNDER 75) RECEIVE ADDITIONAL SUBSIDIES, PAYING NO MORE THAN 3.5 PERCENT TO 7.9 PERCENT OF PAYROLL, DEPENDING ON FIRM SIZE AND AVERAGE WAGE.

- O <u>LARGE FIRMS</u>. FIRMS WITH MORE THAN 5,000 EMPLOYEES WHICH ARE OUTSIDE THE ALLIANCE PAY 1 PERCENT OF PAYROLL ASSESSMENT.

Model 1

- o Caps employer subsidies at 12 percent of each worker's individual wage, rather than 7.9 percent of average firm payroll as under HSA.

- o Reduces firm threshold for community rating (alliances) from 5,000 to 1,000 and assesses all 1,000+ firms 1 percent of payroll. All firms eligible for employer subsidies.

	HSA	Model 1
Avg. employer premium payment per family	$2,152	$2,187
Avg. family premium payment	$563	$583
Defict reduction relative to baseline	NA	$45-55

Implications:

- o Relative to the HSA, average family payments rise slightly.

- o Model 1's individual wage cap better targets employer subsidies to lower wage workers, which results in slightly higher average employer payments per family.

- o As under HSA, small businesses in all four models receive additional subsidies to lower their costs.

- o Total federal subsidy are reduced relative to the HSA.

Model 2

o Identical to Model 1, except that it reduces the value of the benefit package by 5 percent.

	HSA	Model 2
Avg. employer premium payment per family . . .	$2,152	$2,108
Avg. family payment	$563	$555
Deficit reduction relative to baseline	NA	$100–115

Implications:

o Relative to the HSA, average family and employer payments decline slightly, due to the lower cost of the benefit package. This could, however, increase families' out of pocket costs.

o As in Model 1, an individual wage cap better targets employer subsidies to lower and moderate wage workers.

o Better targeted employer subsidies and lower benefit package reduce total federal subsidies relative to the HSA.

Model 3

- o Reduces employer share from 80 percent to 50 percent. Increases individual share from 20 percent to 50 percent.
- o Lowers value of benefit package by 5 percent.
- o Reduces firm threshold for community rating (alliances) to 1,000. 1,000+ firms assessed 1 percent of payroll and eligible for employer subsidies.
- o Employer share capped at 7.9 percent of individual wages and household payments capped at 6 percent of income. Small businesses capped at 3.5–7.9 percent of individuals' wages.

	HSA	Model 3
Avg. employer premium payment per family ...	$2,152	$1,814
Avg. family premium payment	$563	$831
Deficit reduction relative to baseline	NA	$150–165

Implications:

- o Relative to the HSA, Model 3 reduces burden on businesses and increases burden on individuals.
- o Because the individual wage cap better targets employer subsidies to lower wage workers, it reduces total subsidies relative to the HSA.

Model 4

- o Identical to Model 1, except that it allows the first year premiums for the first year the program is in place to give the uncompensated care windfall to the health industry.

Implications:

- o Just making that one change -- even if growth rates are constrained after the first year -- increases the federal deficit by $455-470 billion to over 1996-2004.