



WASHINGTON UPDATE

- **Senate Begins to Merge Finance and HELP Committee Bills For Senate Floor Consideration**
- **Senate Finance Committee Legislative Language Released**
- **AHIP Letter to Senate Leader and Committee Chairmen on Key Issues**
- **PwC Report on Senate Finance Bill and Fact Check on Criticisms of PwC Report**
- **AHIP Op-Ed in the Washington Post Address Health Reform Cost Study**
- **Senate Considering Vote to Address Medicare Physician Payment Bill Outside Health Reform**

Senate Moves to Merge Finance and HELP Committee Bills for Senate Floor Consideration

With the completion of the Senate Finance Committee markup last week, the Senate Majority Leader, Senate Finance Committee and Senate HELP Committee Chairmen are working toward a merger of the two bills for Senate floor consideration. Other key players in these talks will include Sen. Christopher Dodd (D-CT), who served as acting chairman during the Senate HELP Committee's markup, White House Chief of Staff Rahm Emanuel, and Nancy-Ann DeParle, director of the White House Office of Health Reform.

The Senate Finance Committee approved the "America's Healthy Future Act" on October 13 after a two-week markup. All 13 Democratic members and one Republican, Olympia Snowe (R-ME), voted "yes" for a final 14-9 tally. Several members, despite voting "yes," expressed concern about elements of the bill and indicated that they will be working to amend the bill as the legislative process moves forward. Snowe said that providing access to affordable coverage options is her paramount concern going forward. She also voiced concerns about the bill's Medicare cuts and the impact the proposed Medicaid eligibility expansion would have on state budgets. Snowe emphasized that her vote in support of the committee bill does not necessarily mean she will support the bill that is considered on the Senate floor.

Sen. Charles Schumer (D-NY) said he will be working to change the bill as it goes to the Senate floor, focusing on establishing a government-run plan and safeguarding middle class families from the tax on high-value health plans. Sen. Jay Rockefeller (D-WV) also emphasized his support for adding a government-run plan and establishing a minimum medical loss ratio of 85 percent. Sen. John Kerry (D-MA) indicated that, if the merged Senate bill does not include an employer mandate, he intends to offer an amendment addressing this issue on the Senate floor.

Senator Tom Harkin (D-IA) has indicated that Senate Democrats are considering three different versions of a government-run insurance plan that they might include in the merged bill. The three versions include: (1) the government option proposed in the HELP committee's bill, which would require the Secretary of Health and Human Services to negotiate payment rates with health providers; (2) allowing states to opt out of the government plan and create nonprofit insurance cooperatives instead (Finance Committee approach), or (3)

attach a “trigger” to the government option so that it would only be implemented in the event private insurers do not provide affordable coverage to a sufficient number of Americans. A fourth option being floated by Senators Carper and Schumer would allow states to create their own version of a government plan, and if they were unable to do so, states could access a federal plan as a fallback. The House appears to be considering two versions of a public option, in which the plan would either pay health providers rates tied to Medicare (e.g. Medicare plus 5%) or where rates must be negotiated. More support appears to for negotiated rates.

All of these options are problematic, including a trigger, as the affordability threshold continues to get smaller. Originally, the threshold for “affordability” in Senate Finance was no more than 13% of income, now the threshold has been pushed down to 8% of income. If the legislation continues to include a weak mandate and lack system-wide cost containment, it will be very difficult if not impossible to avoid the trigger. ***At this point, the Senate will most likely act first and could bring a combined bill to the floor as soon as the week of October 26, but more likely the first week in November.***

Senate Finance Committee Legislative Language Released

Yesterday, the Senate Finance Committee released actual legislative language (S. 1796) and a committee report for the bill approved out of the committee on October 13. As discussed above, this legislation will be joined with the HELP Committee measure (S. 1679) that was approved July 15th. The legislation is available on the Senate Finance Committee website below: <http://finance.senate.gov/sitepages/legislation.htm>

Key differences are that the HELP measure would include a government plan option and employer mandate, which are not part of the Finance bill. Notably however the Senate HELP Committee includes a stronger personal responsibility requirement for coverage that the Finance bill.

AHIP Letter to Senate Leader and Committee Chairmen on Key Issues

Last week, AHIP sent a letter to Senate Majority Leader Harry Reid (D-NV), Senate Finance Committee Chairman Max Baucus (D-MT), and Senate HELP Committee Chairman Tom Harkin (D-IA), outlining our recommendations for creating an affordable, sustainable health care system that covers all Americans. The letter includes recommendations in three areas: (1) pairing market reforms with an effective coverage requirement; (2) undertaking system-wide cost control and avoiding cost shifting; and (3) avoiding new health care taxes that add to the cost of coverage. AHIP's letter also explained that AHIP commissioned the new PricewaterhouseCoopers study because of concerns about the workability of key aspects of the pending bills. This study confirms that key elements of the Senate Finance Committee bill could make it harder to cover all Americans and could make coverage less affordable for individuals, families and employers.

PwC Report on Senate Finance Bill and Fact Check on Criticisms of PwC Report

Last week AHIP released a report prepared by PricewaterhouseCoopers that examined the impact of the Senate Finance Committee's health reform bill on the cost of coverage for both single and family policies in the individual, small group, large group, and self-funded insurance markets. A link to this report is available at: <http://www.americanhealthsolution.org/reform-resources/>

The report makes clear that several major provisions in this bill would cause health care costs to increase far faster and higher than they would under the current system. The report finds that the proposal "will increase

premiums above what they would increase under the current system for both individual and family coverage in all four market segments for every year from 2010-2019."

The report analyzed 4 key drivers of rising health care costs: (1) Market reform enacted in the absence of universal coverage will increase costs dramatically for many who are currently insured by creating a powerful incentive for people to wait until they are sick to purchase coverage. (2) The new taxes on health insurance plans, medical device makers, and pharmaceutical manufacturers will result in increased costs for individuals, families, and employers. (3) Record reductions in Medicare spending will raise costs as providers shift even more costs to individuals, families, and employers with private coverage. (4) Taxes on high-value health plans will raise the cost of employer-based coverage, particularly for companies with older workforces and those whose benefit plans have been secured through collective bargaining agreements.

There was a great deal of criticism about the report and timing of its release. It is important to understand that the report was not written to oppose reform, but to highlight serious issues with the current legislation. The following document was prepared to address technical questions and provide answers about the assumptions in the report.

<http://americanhealthsolution.org/assets/Uploads/Blog/Technical-Q-and-A-Updated.pdf>

Fact Check on Health Care Cost Report Commissioned by AHIP

CLAIM: The study ignores the impact of subsidies that would be available to a subset of consumers who purchase coverage through new insurance exchanges.

FACT: No one disputes that subsidies will help many moderate-income families PAY FOR health care coverage. But subsidies will do nothing to BRING DOWN the overall cost of that coverage. Claiming that premium subsidies will reduce the cost of coverage is like saying that Pell Grants reduce the cost of tuition. Pell grants help families pay the tuition bill, but they do not lower the actual price of tuition. Meanwhile, tuition prices soar. Moreover, the presence of subsidies does not change the fact that major provisions in the current bill will cause health care costs to skyrocket as they have in states like New York that have tried similar approaches.

FACT: The study makes clear that subsidies would have an impact on consumers' net costs. On page one of the report, it clearly states, "Collectively these provisions would raise the premiums for private health insurance coverage. The reform packages under consideration have other provisions that we have not included in this analysis. We have not estimated the impact of the new subsidies on the net insurance cost to households."

FACT: The study DOES take into account the presence of subsidies in estimating the number of additional people who will obtain insurance under the reforms, and those insured under the current system.

CLAIM: The study's authors "admitted" after the fact that the study did not look at every provision in the bill.

FACT: The study never claimed to be an analysis of every provision in the legislation. The study makes clear in the executive summary that it is an analysis of four major provisions that will have the greatest impact on premiums. On page E-1 the report says, "America's Health Insurance Plans engaged PricewaterhouseCoopers (PwC) to examine the impact of four components of the health reform bill being proposed by the Senate Finance Committee as introduced."

CLAIM: The non-partisan Congressional Budget Office has said that the proposed reforms will lower premiums in a new insurance exchange:

FACT: In a letter to Chairman Baucus on September 22, CBO said, “premiums in the new insurance exchanges would tend to be higher than the average premiums in the current-law individual market—again with other factors held equal—because the new policies would have to cover preexisting medical conditions and could not deny coverage to people with high expected costs for health care. (CBO has not analyzed the magnitude of that effect.)”

CBO also said, “In light of those complexities, quantifying the net effects of the Chairman’s proposal on the amounts paid by individuals and families to obtain health care is very difficult. CBO has not modeled all of those factors and is unable to quantify them or calculate the net effects at this time.”

FACT: There is widespread agreement that insurance market reforms must be paired with an effective personal coverage requirement in order to keep health care coverage as affordable as possible.

President Obama in his address to Congress on September 9, 2009 said the following: "And unless everybody does their part, many of the insurance reforms we seek – especially requiring insurance companies to cover pre-existing conditions – just can't be achieved."

AHIP Op-Ed in the Washington Post Address Health Reform Cost Study (with Reference Links Included)

About that health reform cost study

Karen Ignagni, Tuesday, October 20, 2009

“It has been alleged that health insurers commissioned a report recently from PricewaterhouseCoopers as part of a last-ditch effort to kill health-care reform. A relentless public relations campaign has attacked the messengers — our association, America’s Health Insurance Plans (AHIP), and PricewaterhouseCoopers — as a way of discrediting the findings that major provisions in the Senate Finance Committee proposal will have the unintended effect of increasing the cost of health-care coverage.

Let me be clear and direct: Health plans continue to strongly support reform. In fact, last year we proposed new insurance market rules and consumer protections to achieve universal coverage, remove restrictions on preexisting conditions, and end the practice of basing premiums on health status or gender. We firmly believe that all the cost concerns the report raised can be resolved.

Some have questioned the timing of the report’s release. AHIP commissioned the report Sept. 29, as it became clear that the Finance Committee would gut the requirement that all individuals obtain coverage. We received the study on Saturday, Oct. 10, and shared it with our members the next day.

The report’s central finding has long been noncontroversial in health policy and economic circles: namely, that implementing reforms of the insurance market without a strong requirement that everyone participate will cause adverse selection and significantly increase costs for individuals and small businesses. This finding echoes the message President Obama delivered in his address to Congress last month. **“And unless everybody does their part, many of the insurance reforms we seek — especially requiring insurance companies to cover pre-existing conditions — just can’t be achieved. And that’s why under my plan, individuals will be required to carry basic health insurance,”** he said.

The report concluded that the proposed new taxes on health plans, pharmaceutical manufacturers and medical device makers will increase the cost of coverage. These findings are entirely consistent with the judgment expressed by the director of the nonpartisan Congressional Budget Office, who recently told the Senate “that piece of the legislation would raise insurance premiums by roughly the amount of the revenue collected.”

The study also found that Medicare cuts enacted in the absence of systemic reforms in the way care is delivered will simply result in more costs being shifted to individuals and employers who purchase private coverage.

The combination of these three inflationary factors would mean that in a few years, far more employees’ health plans would be subject to the new tax on comprehensive benefit packages than is currently projected, quickly turning the so-called Cadillac tax into a Chevrolet tax.

The study clearly states that its analysis covers only these provisions and specifically notes that it did not factor in the impact of proposed premium subsidies. Nevertheless, critics have charged that the study nefariously hid the fact that it omitted provisions designed to enhance affordability, such as the subsidies and a grandfathering clause.

Subsidies have broad bipartisan support and will clearly help many moderate-income families pay for health coverage. But subsidies will do nothing to bring down the actual cost of that coverage. Suggesting that they will is comparable to saying that Pell Grants reduce the cost of college tuition. Pell Grants enormously help families afford the high cost of education, but they do not lower tuition levels. Meanwhile, tuition prices soar.

The alarming implication of the study is that the proposed subsidies would not be adequate and would have to be increased as costs escalate.

The provision that supposedly “grandfathers” people into their current plans offers limited protection against higher costs because one-third of Americans change their coverage each year. Anyone who changes jobs, gets married or divorced, has a child or moves to another state would not be protected by the grandfather clause.

Costs are the critical issue because their projected growth threatens the sustainability of the entire health-care system. The CBO projects that health-care spending will rise at an annual rate of 6.2 percent for the next decade. With another decade of soaring health spending, wages will stagnate; employers will struggle to maintain coverage; health spending will crowd out other critical national priorities such as education, the environment and national security. Medicare itself will become insolvent.

We believe the nation can bend the cost curve by 1.5 percentage points annually if reform includes systemwide efforts to reward best practices, shrink the wide variation in care, expand care coordination, and equip doctors and patients to make decisions based on what works.

We believe the nation can bend the cost curve by 1.5 percentage points annually if reform includes systemwide efforts to reward best practices, shrink the wide variation in care, expand care coordination, and equip doctors and patients to make decisions based on what works.

The shared promise of health-care reform is guaranteeing access to affordable coverage for those outside of the system while ensuring that those who have coverage can keep what they like. That promise can be kept only if Congress puts the nation on a path to universal coverage and confronts what lawmakers have thus far

been unwilling to address: the need for tangible, effective steps to reduce the growth in health-care costs and make the system sustainable for generations to come.”

Senate Considering Vote to Address Medicare Physician Payment Bill Outside Health Reform

According to discussions yesterday, there is still interest among Senate leadership to debate a bill to permanently repeal the controversial Medicare payment formula for physicians as soon as this week. The discussion now involves what Republican amendments will be considered.

Republicans will offer amendments to pay for at least a partial payment physician payment fix and, among them, will be one on medical malpractice reform, which could save as much as \$50 billion over 10 years.

This bill, S. 1776, introduced by Sen. Debbie Stabenow (D-MI) on October 13, would prevent a 20 percent reduction in Medicare physician payment rates from taking effect in 2010. Instead, the bill would establish a zero percent update for 2010 and all subsequent years. The cost of this payment "fix" is estimated to be approximately \$245 billion over ten years, ***and the bill does not include any provisions to offset these costs.***

A number of senators, both Democrats and Republicans, have expressed major concerns about passing this bill without budget offsets. Sen. Kent Conrad (D-ND), chairman of the Senate Budget Committee, said this week that he supports legislative action to prevent the scheduled reduction in Medicare physician payment cuts, but emphasized that such legislation should be paid for without adding to the federal budget deficit. On the other side of the Capitol, House leaders have promised conservative Blue Dog Democrats that House legislation addressing this priority will be deficit-neutral.

Both the Senate and House health reform bills include provisions providing for a short-term Medicare physician payment "fix." These provisions will be removed from the health reform debate, thus lowering the overall costs of reform, if supporters of S. 1776 are successful in their efforts to address the Medicare physician payment issue in a freestanding bill.

For more information contact
Melissa Schooley, VP Government
Affairs, mdschooley@cvtv.com