

Inching Toward Federal Health Care Reform: The House & Senate Bills

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Congress is inching toward major health reform legislation. There is also significant consensus on the framework for health reform legislation. Both bills: **(1) reform private health insurance, (2) guarantee affordable health insurance for all; (3) use Health Insurance Exchanges to reduce the cost of insurance in the individual and small group markets, and (4) create new health insurance options; and provide for (4) shared responsibility.** The major points of disagreement among those supporting reform are how to finance the reforms and whether those who purchase individual policies through the new Health Insurance Exchange should be offered an additional choice of a public option health insurance plan. Abortion continues to create conflict.

There is wide scale agreement that the U.S.'s private health insurance system is broken: Private insurers refuse to cover individuals who need medical care; even middle-income families are priced out of private insurance; and businesses, already reeling in the economic downturn, are straddled by skyrocketing health insurance premiums. The two bills being considered by Congress build on what works in today's health care system, fixing parts that are broken. They protect current coverage—allowing individuals and employers to keep the insurance they have if they like it—and preserve choice of doctors, hospitals and health plans. This brief offers a short description of the framework for consensus on health reform and the major points of disagreement in the House and Senate bills.

Overview of Process in Congress So Far: Both houses have passed their own versions of the bill.

What Comes Next: Members of both houses are now in negotiations attempting to reconcile the differences in the two bills. If the negotiators can reach agreement, the one bill will be presented to both houses for a vote.

FRAMEWORK FOR REFORM

Private Health Insurance Reforms

Both bills change how private insurance companies do business to guarantee access to health insurance, prohibit discrimination based on health status, and control health care costs. They

- Prohibit private insurance companies from turning down individuals because of **pre-existing medical conditions** or **rescinding** policies.
- Stop insurance companies from charging **higher premiums** because of pre-existing conditions, gender, or occupation and limit the extent to which insurance companies can charge higher premiums because of age. Plans will still be able to vary premiums based upon family size and geographic area.
 - House Bill limits age rating variations to 2:1, meaning that the oldest folks can only be charged twice as much as the youngest. The Senate bill allows age rating variations of 3:1. The Senate also allows plan to charge smokers 50% more (and subsidies would not cover the higher rate for smokers).
- Require health insurance plans to cover an **essential benefit package** that includes hospital, physician, prescription drugs, mental health, preventive care, and other services with the details to be developed by those responsible for implementing the legislation.
- **Prohibit annual or lifetime limits** on coverage. Commentators believe that the Senate bill allows group health plans to place annual or lifetime limits on specific covered services.
- **Require annual out of pocket spending caps** for consumers.
 - Under the House bill, **basic plans** would have to cover at least 70% of the costs of covered services, with consumers paying the rest through deductibles and copayments. Insurers could also offer three other benefit levels, covering up to 95% of costs.
 - In the Senate bill, basic plans would have to cover 60% of the cost of the benefits, and insurers could offer three other benefit plans, covering 70% to 90 % of costs.
 - The Congressional Budget Office says policies bought in the individual insurance market cover, on average, 55% to 60% of medical costs. Coverage in the employer sponsored is typically around 80%.
- Require insurance companies to report the percentage of premium dollars spent on **administrative overhead and profits** rather than medical care.
 - The House bill requires insurers to spend at least 85% of premiums for medical care. The Senate version requires insurers to spend at least 85% of premiums on medical care in the group market and 80% in the individual market, although this cap on overhead and profits expires in 2013.
 - The House bill applied to self-insured employers, effective 2018. Apparently, the Senate bill does not.

Guaranteed Affordable Health Insurance

Both bills provide for **sliding scale premium subsidies for people purchasing insurance through the Exchange** to make insurance affordable for lower and middle income families.

- Premium subsidies will be available to families with income up to 400% of poverty level guaranteeing that they will have to spend no more than 9.8%-12% of their income for health insurance premium costs.
 - Lower income working families will get more help so their premium costs are no more than 2-3% of their income.
 - Subsidies will also be available to reduce out of pocket costs.
 - The two bills have slightly different subsidy levels, but all the bills recognize that, with premiums now exceeding \$13,000 a year for family coverage, even average-income families cannot afford health insurance on their own.

1	\$43,320
2	\$58,280
3	\$73,240
4	\$88,200

Yearly 400%

- **Expand Medicaid to cover all low income working families and individuals** under age 65. The Senate bill extends coverage up to 133% of Federal Poverty Level and the House bill goes up to 150% FPL.

- **Enhanced federal match** means that the federal government will pick up as much as 91%-95% of the cost for those who are newly eligible. At present, the federal government covers, on average, about 57% of Medicaid costs and 63% of the cost in Missouri.
 - This issue of a state match is generating a great deal of controversy because the two versions of the bill impact various states differently. Sen. Nelson of Oklahoma has proposed that the federal government cover 100% of the costs of Medicaid expansion.
- The Medicaid expansion will cover an estimated 14-15 million uninsured individuals from working families.

	133%
1	\$1,200
2	\$1,615
3	\$2,029
4	\$2,444
5	\$2,858

Monthly income

- **Better Medicare coverage for seniors and people with disabilities.** Prescription drug coverage would be more affordable. The House bill would significantly reduce and ultimately eliminate **the Part D "doughnut hole"** while the Senate Finance version provides for 50% discount during the "hole."
 - **Preventive services** would no longer be subject to co-pays or deductibles.

Creation of a "Health Insurance Exchange"

An Exchange is a new entity that will allow for **one-stop shopping** for health insurance so individuals can compare options and enroll in the plan that best meets their needs, at the best price. Plans offered through the exchange will be required to comply with the new health insurance reform rules for issuing and pricing policies.

- An Exchange will make health insurance more affordable by pooling costs across larger numbers of people and reducing the costs of marketing health insurance in the individual and small group markets, where overhead costs typically run as high as 30-40 percent.

- The House bill proposes one large national Exchange, combining the individual and small group markets. The Senate bill provides for up to 100 state-based Exchanges, with separate state-level Exchanges for the individual and small group markets. The Senate does give states the option to pool together to create regional exchanges.
- Individuals will be able to **choose among a variety of types of plans**, with individuals making their own trade-offs between lower premiums and higher out of pocket costs.
- The Exchange **will not replace employer-sponsored benefits**. The Exchange will be for those who do not have coverage or from whom employers sponsored coverage is too expensive.
 - The Senate bill allows employees whose employer plan costs more than 9.8% of income the option of using the Exchange, the House bill sets the threshold at 12%.
- **Small businesses** may opt to use the Exchange, giving their employees access to all plans offered by the Exchange. The House bill, but not the Senate, phases in an option for larger employers to use the Exchange if they wish.

Increased Choices

The most contentious issue is whether individuals and small businesses purchasing health insurance through the Exchange should have the option to enroll in a **new health insurance plan, not controlled by private health insurance companies**. There is agreement in Congress that the private insurance market needs to change and that change can be accomplished by offering new affordable choices to compete with private insurance companies.

- The House bill provides for a new public health insurance plan offered by the government but with claims administered by private entities much like **traditional Medicare**.
- The Senate bill includes a new not for profit health insurance option, similar to the **Federal Employees Health Benefits Plan**.
- Both bills create a new program to foster creation of new non-profit, consumer-controlled private plans, called **consumer coops**.
- Under both the Senate and House bills, the government would negotiate payment rates for hospitals and providers.
- Whatever form these new plans take, they will be another option—no one will be required to enroll in them—for those Americans who use the Exchange to purchase health insurance.
- These new options would have to comply with all the new rules for health insurers.

Shared Responsibility

Everyone is worried about who will pay for health reform, but the key to making coverage affordable is for everyone to do their part.

- **Those without coverage** will be asked to pay health insurance premiums on an affordable sliding-scale based on income, whether they are young and healthy or older with complex medical needs. Younger adults will pay lower premiums than older adults and both proposals add an option for young adults to continue

- coverage under their parents' plans, through age 26 in the House bill and age 25 in the Senate version.
- Both bills impose a financial penalty on those who choose not to get coverage with exemptions for those with "hardships."
 - The Senate version authorizes a penalty only if "affordable" coverage with premiums costing no more than 8% of income is available.
 - The House bill provides a penalty of 2.5% of income for individuals earning more than \$8,350 and couples filing jointly earning over \$18,700. In the Senate bill, the penalty is \$750 per adult year and \$375 per child with a family maximum of \$2,250 or 2% of income up to the average premium level, if higher.
- **Employers** are also expected to do their part, which will level the playing field between those companies that provide coverage and those that do not.
 - The House bill assesses an annual fee on larger employers who do not contribute toward their employees' health insurance. The House bill assesses large employers 8% of payroll and smaller employees with payrolls of \$500,000 to \$750,000 between 2% and 6% of payroll.
 - The Senate Finance bill only assesses a penalty of \$750 per employee against larger employers if at least one employee receives an insurance premium subsidy. The penalty is the lesser of \$3,000 for each employee who receives a premium credit or \$750 per employee.
 - **Assistance to small businesses.** Both bills exempt very small employers from the employer contribution and provide tax credits to small employers to help them pay for the cost of employee health insurance.
 - The Senate bill defines small employer as those with 50 or less employees. The House defines small employer as those with less than \$500,000 in payroll. The Senate bill does not exempt smaller construction companies with more than 5 employees and \$250,00 in payroll.
 - In addition, small businesses will also benefit from the more affordable coverage available in the Exchange, regardless of health status of employees.
 - One-third of the uninsured, 13 million people, work for businesses with fewer than 100 workers.

Paying for Reform

While the federal budget price tag for expanded health coverage seems staggering—about \$848 to \$894 billion over ten years—this amounts to less than 2-3% of total health care spending. Overall—counting private as well as public spending—it will cost more to do nothing.

- Congressional rules require that the bills be federal budget neutral. The CBO must certify that the bills will not increase the federal deficit, and it has determined that the bills reduce the federal deficit by \$109-\$132 billion over 10 years. (The Senate version saves more money.)

- About half the cost of health reform will be financed by slowing the growth of Medicare provider payments by about 1% a year—an amount hospitals and other providers have agreed is reasonable given savings that result from reform.
- Other savings come from cuts in the prices of brand name drugs sold to seniors and eliminating overpayments to Medicare managed care plans.
- Both bills provide for new fees on health insurers, drug makers and medical devices.
- The House bill generates the rest of the revenue needed to pay for reform by reversing some of the tax cuts enacted over the last 30 years for the wealthiest households, imposing a 5.4% surtax on couples earning over \$1 million and individuals earning more than \$500,000.
- The Senate Bill uses other revenue provisions including a 10% tax on indoor tanning, a ½ percent Medicare payroll tax increase for income over \$250,000 a year, and a surcharge on very high cost health insurance plans valued at over \$8,500 for individuals and \$23,000 for family coverage. Presently, the average cost for coverage in the employer market is \$4800 for individual plans and about \$13,000 for family coverage.