May 23, 1999

Insurers Ask Government to Extend Health Plans

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By ROBERT PEAR

WASHINGTON -- Health insurance companies are proposing new Federal programs and tax breaks to subsidize insurance for millions of people without coverage.

The insurance industry, which helped kill President Clinton's plan to guarantee coverage for all Americans in 1994, said it had become alarmed at the growing number of uninsured.

"Every American ought to be concerned that more than 43 million people lack health insurance," said Leonard D. Schaeffer, chairman of the Health Insurance Association of America, which mocked the President's plan with its "Harry and Louise" commercials five years ago.

The Clinton plan would have tightly regulated the operations, and squeezed the profits, of health insurance companies. The association's proposals, announced on Friday and intended to cover up to 28 million of the uninsured, would amount to a huge new Federal subsidy to the industry. But Schaeffer said most of the money would be passed on to doctors, hospitals and others who provide health care.

The insurers proposed expansion of the new Children's Health Insurance Program to cover uninsured people of all ages under the official poverty level (an annual income of $13,880 for a family of three). States would have a large role in arranging this coverage.

The insurance companies also proposed a new Government subsidy, in the form of vouchers, for uninsured people between 100 percent and 200 percent of the poverty level. The vouchers, about $2,000 a year for each person, could be used to buy private health insurance of the type sold by members of the association.

The industry also said the Federal Government should subsidize

existing state insurance pools, for people in poor health who cannot get insurance in the private market.

In addition, the insurers asked Congress to create new tax deductions and tax credits to help small employers, self-employed people and uninsured individuals buy coverage. Congress is considering such tax breaks.

The association said these initiatives, taken together, could cost as much as $60 billion a year. But, it added, Congress could start with parts of the plan costing much less.

Judith Feder, a health policy expert who worked in the Clinton Administration from 1993 to 1995 and is now dean of policy studies at Georgetown University, said: "I commend the insurance industry for supporting the expansion of public health insurance programs for low-income people. At present, there's no medical safety net for millions of childless adults with low incomes. But it makes me nervous to depend on an undependable private insurance market for people above the poverty level."

In recent months, Congress and President Clinton have focused on ways to assist people who already have health insurance, by defining the rights of patients in health maintenance organizations and by expanding **Medicare** to cover prescription drugs.

But Charles N. Kahn 3d, president of the Health Insurance Association of America, said it was more urgent to provide at least basic coverage to people who did not have it.

If Congress uses some of the Federal budget surplus for health care, Kahn said, it should "spend the surplus first on basic health coverage for all Americans before it's spent on prescription drugs for seniors."

It would be easy to dismiss the association's proposals as self-interested. But the proposals reflect the anxiety of many business, labor and consumer groups over the erosion of health insurance coverage in the United States. The erosion is remarkable because it coincides with an economic boom in which the unemployment rate is at the lowest level in 29 years.

Health insurance executives say they fear that if the erosion of private insurance coverage continues, people will demand new Government programs to guarantee health benefits. Such programs could marginalize private insurance companies or force them to operate like a heavily regulated public utility.

Kahn said he saw no inconsistency between the industry's positions in 1993-94 and in 1999. Back then, he said, the association supported Clinton's goal of universal health insurance coverage and even the means to that end favored by the President, a mandate for all employers to subsidize coverage.

"Our problem with Clinton care was the overall superstructure, the bureaucratic and regulatory apparatus, not universal coverage or the employer mandate," Kahn said.

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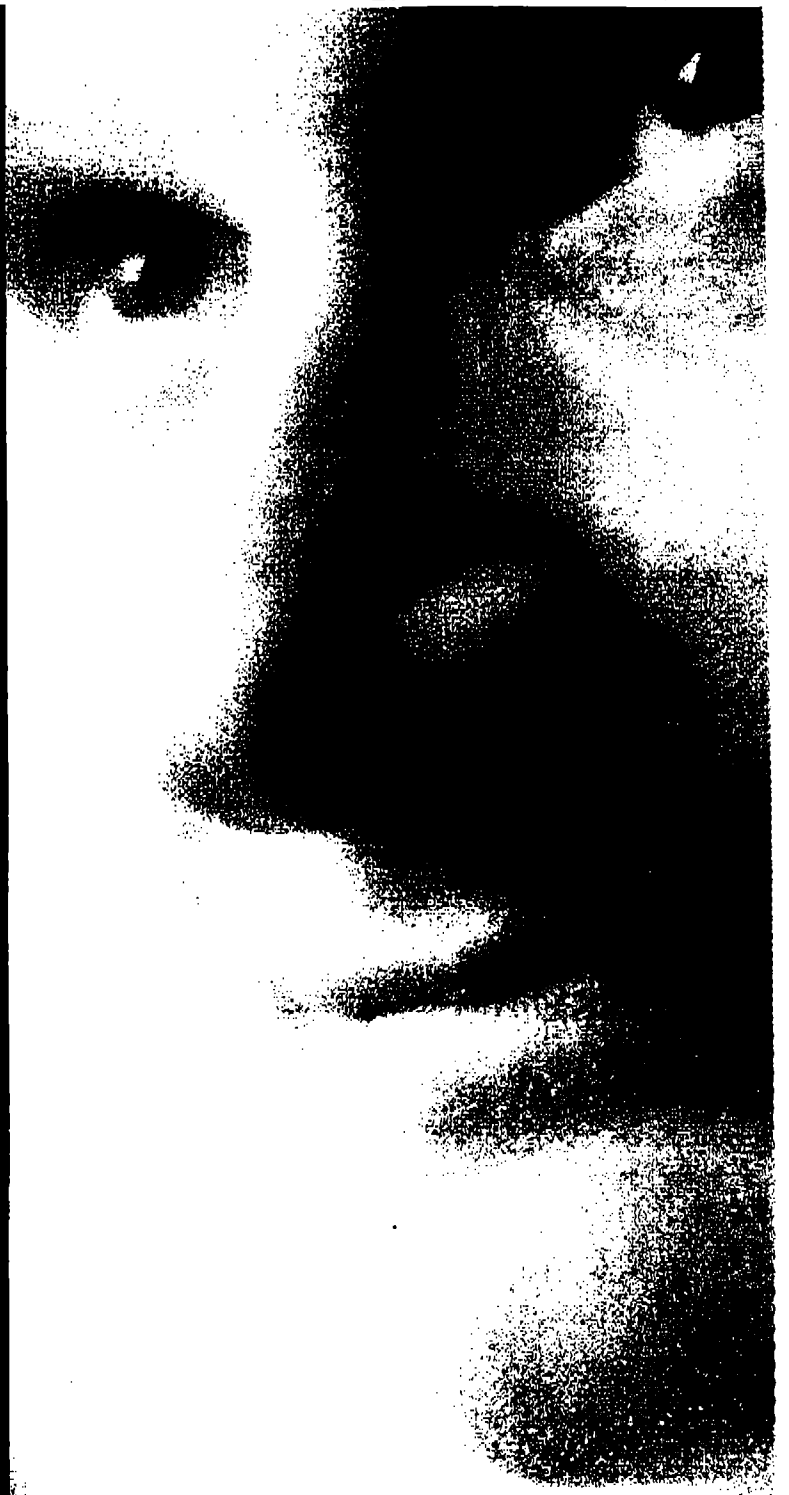
InsureUSA

An initiative to increase health coverage



HIAA Health Insurance Association of America

Currently, 168 million nonelderly Americans enjoy the security of private health insurance; and the vast majority gets its coverage at the workplace. But for too many Americans, private health insurance is unaffordable . . . and often, government programs like Medicaid do not cover these needy adults.

At last count, 43 million people had no health insurance coverage. This must change.

HIAA's initiative to increase health coverage combines targeted subsidies, incentives, cost-control measures, and education. Importantly, it builds on the foundation of the private employer-based system while recognizing that government also has an important role. This brochure gives the outlines of our proposal: For more information, log on to www.insureusa.org.

A Safety Net for the Neediest

Many low-income Americans who can't afford private health coverage do not qualify for public programs or subsidies. (Married couples without children and single men are the least likely to have insurance.) Among those whose incomes are below 100% of the federal poverty level (about $8,480 for one person), only 14% have employment-based overage.

We propose a public health insurance program for adults whose incomes are below 100% of poverty.

- The federal government and the states should jointly fund the program; the Children's Health Insurance Program (CHIP) provides a model.
- States would have significant flexibility as to benefits and program structure.
- Incentives would exist to subsidize private coverage with program funds.

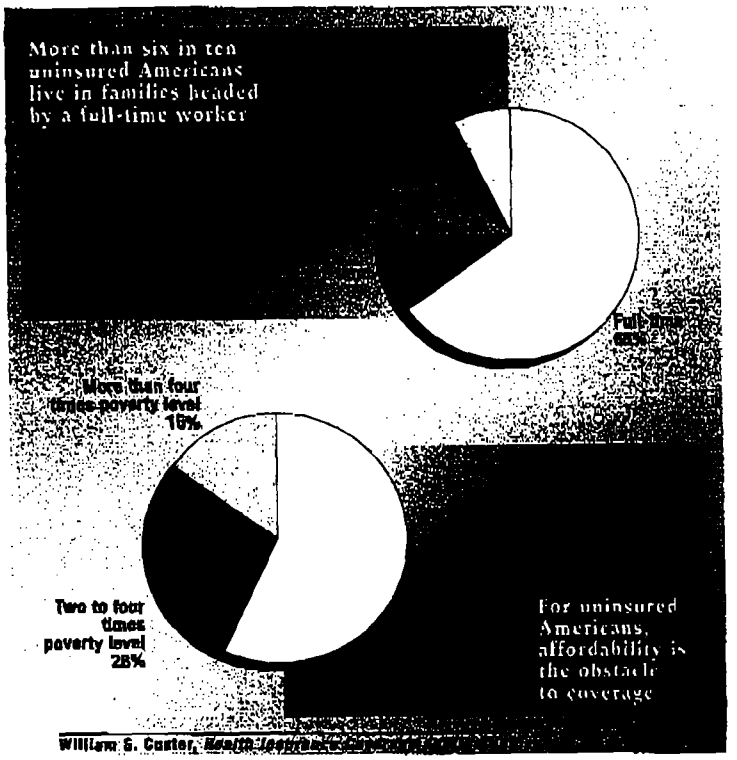
Private Coverage for the Working Poor

People who have incomes above 100% (and up to 200%) of the federal poverty level also need help to purchase coverage. Many are not eligible for public programs. And while 44% of these Americans get health insurance at the workplace, the rest don't have access to employer-sponsored coverage or cannot afford it. For them, a voucher system could go a long way.

We propose a federal voucher of approximately $2,000 (that's about 75% of the average Federal Employee Health Benefit Plan premium) to help low-income workers obtain affordable coverage.

■ For people whose employers offer coverage, the voucher would pay for part of the premium–the "employee contribution."

For others, the voucher could apply to any "creditable coverage"under federal law for which the individual is eligible.



Access for Those in Poor Health

Some people–who may be able to afford a premium, or are eligible for a voucher or other subsidy–may not qualify for private insurance because of their poor health. While states have chosen various mechanisms to guarantee access to coverage to these individuals, high-risk pools have demonstrated the most success.

We propose that the federal government make risk pools more attractive and increase their likelihood of success by providing:

■ Seed money and block grants to help defray costs.

■ Matching funds (50/50) to help pools with underwriting losses on premiums down to 150% of the standard rate.

■ Reinsurance to cover 75% of claims over $1 million for an individual pool enrollee (indexed to medical inflation).

■ Funds, antitrust exemptions, and tax credits for risk pools sponsored by private industry.

If neither the state nor private industry establishes pools, the federal government should do so.

Tax Incentives and Subsidies for Businesses, Individuals, and the Self-Employed

Many businesses, individuals, and the self-employed cannot "spread the risk" among a large group of health insurance beneficiaries. Inequities within the tax code further exacerbate the problem.

To make coverage more affordable for these key groups, we propose that:

■ Small employers–many of whom do not offer coverage–should get a tax credit that could be phased-in beginning with smallest firms:

- 40% credit for employers with fewer than 10 employees
- 25% credit for employers with 10-25 employees
- 15% credit for employers with 26-50 employees

■ Employee contributions for health insurance should not be considered taxable income (even if not made through a Section 125 cafeteria plan). This would primarily benefit those who work for small employers who generally do not have access to cafeteria plans.

■ Individual purchasers of health insurance and the self-employed should be able to fully deduct the cost of premiums.

- Under current tax law, individuals can't deduct health insurance premiums they pay until their medical costs exceed 7.5% of income. And the self-employed will have to wait until 2003 for full deductibility. Changes in tax law would result in greater equity . . . and make coverage more affordable for these purchasers.

■ Medical Savings Accounts (MSAs) should be made more attractive:

- Simplify rules
- Eliminate "sunset" provision for MSAs available to the self-employed and small employers
- Extend availability to large employers
- Permit both employees and employers to contribute to MSAs
- Make it easier for PPOs and other network-based plans to offer MSAs

Lower Health Care Costs

Mandates cost money . . . and recent studies show they account for lack of coverage in up to one out of four uninsured Americans. Mandates also stifle innovation and hinder the ability of insurers to respond to customers. While there may be limited societal costs to eliminating some mandates, these should be more than offset by the decrease in the number of Americans who lack coverage and by the increase in affordability for all purchasers.

We propose reducing regulatory (and other) burdens that contribute to the cost of coverage:

- Benefit mandates passed by states should be preempted.
- Small-group laws and regulations should be modified and restrictions eased.
- Liability laws must undergo reform and limits set on damages.
- Fraud and abuse initiatives (including extending liability for private sector fraud violations) must be aggressively pursued.
- Federal requirements on administrative simplification must apply to all players in the health care industry, including providers.

about the uninsured...

- **More than 43 million Americans currently lack health insurance coverage. Almost 11 million are children.**
- **The largest segment of the uninsured is the working poor.**
- **The smaller the size of the firm, the less likely it is to offer coverage.**
- **Nearly 25% of young adults up to age 34 lack coverage; they represent nearly 40% of the uninsured.**
- **The income of many who lack health insurance is so low that they cannot afford coverage,but not so low as to qualify them for government aid.**
- **The primary reason for the increase in the number of Americans without health insurance has been the increase in health care costs relative to family income.**

A Better Public Health System

The nation's public health system is critical to uninsured individuals who need physical, mental health, or substance abuse services, and the federal and state governments have important roles to play.

We propose restructuring funding sources to improve the system's infrastructure and encourage better coordination among systems of care.

Personal Responsibility

Personal responsibility not only extends to health habits–eating sensibly, exercising, engaging in wellness activities, and following treatment and prevention regimens–but to protecting oneself from risk. People should obtain insurance if they can; those who choose not to purchase it should shoulder greater responsibility for the cost of their care.

We propose promoting responsible behavior through education on:

- Wellness and prevention.
- Adherence to treatment regimens.
- The importance of health insurance.

THE PROPOSAL

- A SAFETY NET FOR THE NEEDIEST
- PRIVATE COVERAGE FOR THE WORKING POOR
- ACCESS FOR THOSE IN POOR HEALTH
- TAX INCENTIVES FOR BUSINESSES, INDIVIDUALS, & THE SELF-EMPLOYED
- LOWER HEALTH CARE COSTS
- A BETTER PUBLIC HEALTH SYSTEM
- PERSONAL RESPONSIBILITY

key principles

The time is ripe.

Today, there are over 43 million uninsured Americans. By the end of the next decade that number will grow to at least 53 million—one in every five nonelderly Americans. If the economy sours, it could be one in four. That's right. One quarter of working-age Americans and their families could find themselves without health insurance coverage of any kind.

Affordability is key.

The major reason that Americans are uninsured is because they cannot afford coverage. Reforms must reduce the costs of health insurance and provide financial support for those who cannot afford coverage.

A multifaceted problem.

The uninsured have many faces. While affordability is central, many factors contribute to or exacerbate the problem. That's why there's no single, overarching approach to insuring more Americans. What we need is a multifaceted program that attacks the underlying reasons that people are uninsured.

Maintain a strong, vibrant private health insurance market.

A competitive market remains the best way to provide customers with coverage. Regulation that stifles innovation, flexibility, and responsiveness should be discouraged.

Keep the employment-based private health care system.

Nine in every 10 Americans with health coverage get their insurance through their employer. And while coverage has declined overall, the percentage of Americans with employment-based health coverage has increased during the past few years. Reforms must build on the critical cornerstone of employment-based private health insurance.

Financing reform should be broad-based.

State and federal policy makers should be encouraged to finance reforms with broad-based funding sources, not premium taxes. Such sources should include state and federal budget surpluses and state funds related to health, such as tobacco recoveries.

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HIAA
Health Insurance Association of America

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■ NEWS RELEASE ■

HIAA BOARD APPROVES "InsureUSA" INITIATIVE FOR THE UNINSURED

WASHINGTON, D.C. – The Health Insurance Association of America (HIAA) today announced that its Board of Directors has approved "InsureUSA," an initiative, if enacted by the federal and state governments, that would provide coverage for millions of Americans who currently lack health insurance.

HIAA's InsureUSA initiative calls for financial support to provide coverage for low-income Americans and the working poor, access to coverage for people in poor health, and tax relief that would allow individuals and businesses to better afford the cost of coverage.

HIAA also released a new public opinion survey showing that more than 4 out of 5 Americans support the elements of the InsureUSA proposal, and that 7 out of 10 believe the large number of uninsured Americans is a significant national problem requiring immediate action.

"Every American ought to be concerned that more than 43 million people lack health insurance," commented Leonard D. Schaeffer, HIAA's Chairman of the Board and Chairman and Chief Executive Officer of WellPoint Health Networks (Thousand Oaks, CA). "Increasing the number of Americans with health coverage ought to be the top national health care priority. If action is not taken, within the decade, nearly 1 out of 4 people below age 65 will go without health insurance."

– more –

"The time to act is now," added HIAA President Chip Kahn. "Americans want action to reduce the number of uninsured. Also, there is broad support for HIAA's proposal because it would make the cost of coverage more affordable for millions of uninsured Americans."

HIAA's InsureUSA proposal calls for extending coverage to the poorest Americans with incomes below 100 percent of poverty who are not eligible for current programs. It further calls for vouchers set at 75 percent of the government payments for the Federal Employee Health Benefits Program ("FEHBP"). These vouchers would help people with incomes between 101 percent and 200 percent of the federal poverty level to purchase private health insurance.

The federal poverty level is $8,480 a year for individuals and $16,530 a year for a family of four. According to HIAA data, 57 percent of uninsured Americans have incomes that are less than twice the federal poverty level.

Enhanced tax incentives in the InsureUSA proposal would extend tax credits to small employers who buy health insurance and allow employees who work for small firms to exclude contributions toward premiums from their taxable income. Additionally, the self-employed and individuals without access to employer-sponsored coverage could take an immediate 100 percent deduction for the cost of their health insurance premiums. HIAA estimates that its InsureUSA initiative would provide health coverage to up to 28 million now uninsured Americans, and make coverage more affordable for tens of millions of Americans who have insurance, at an average annual cost of roughly $60 billion.

HIAA is the nation's most prominent trade association representing the nation's private health care system. Its 269 members provide health, long-term care, disability, and supplemental coverage to more than 115 million Americans.

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NOTE TO MEDIA: HIAA's InsureUSA proposal and survey data are available electronically through a link on the bottom of this press release, located in the news room of the HIAA web site: www.hiaa.org.

Key Elements of InsureUSA

- A Safety Net for the Neediest
- Private Coverage for the Working Poor
- Access for Those in Poor Health
- Tax Incentives for Businesses, Individuals & the Self-Employed
- Lower Health Care Costs
- A Better Public Health System
- Personal Responsibility

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A Safety Net for the Neediest

- WHO:
  - Individuals at <100% of federal poverty level, but ineligible for other federal/state health care programs.
- HOW:
  - Expand federal role to guarantee access to all low-income individuals
  - Fund and structure program through government
  - Base structure on S-CHIP
  - Give states significant flexibility

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Private Coverage for the Working Poor

- WHO:
  - Individuals at 101-200% of federal poverty level, but ineligible for other federal/state programs
- HOW:
  - Provide voucher=75% of FEHBP premium
  - Apply toward employer-based health plans or coverage meeting HIPAA "creditable coverage" definition

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Access for Those in Poor Health

- WHO:
  - Individuals who may be able to pay premium but are ineligible for private coverage due to health status
- HOW:
  - Provide federal block grants for start-up costs, administrative costs, underwriting losses
  - Provide federal matching funds for certain underwriting losses
  - Limit state exposure through federal reinsurance
  - Funds for private industry pools
  - Require Secretary of HHS to establish pools when necessary

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Tax Incentives for Businesses, Individuals & the Self-Employed

- Extend full deductibility of premiums for the self-employed and individuals without employer coverage
- Provide tax credits for small employers
- Exclude employer contributions from taxable income
- Extend MSAs & simplify rules

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Additional Reforms

- Lower costs through deregulation & liability reforms
- Encourage personal responsibility through education, outreach, and legal reforms
- Improve the public health system by restructuring funding sources and fostering coordination

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Results

- No one denied coverage based on health status
- Everyone below 200% of poverty gets access to health coverage
- Tax incentives & deregulation make insurance more affordable for millions of working Americans

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Costs & Coverage for All Proposals

■ Coverage	19 - 28 million
■ Annual Cost	$75 - 92 billion
■ Uncompensated Care	$15 - 25 billion reduction

HIAA Health Insurance Association of America

HIAA SUMMARY OF PROPOSALS AND IMPACTS

May 12, 1999

PROPOSAL	DESCRIPTION	ESTIMATED COVERAGE IMPACT	ESTIMATED COST
POOR & NEAR POOR			
Expand Government Program	Medicaid/CHIP style program for people below poverty level	7.8 million eligible[4] 5.9-7.0 million enrolled[1]	$12.7-$17.0 billion[1]
Subsidy For Near Poor	Voucher at 75% of FEHBP cost for incomes between 100-200% of poverty	9.6 million eligible[5] 7.2-8.6 million enrolled[1]	$23.2-$28.2 billion[1]
HIGH-RISK INDIVIDUALS			
High Risk Pools	Provide federal financial support for state pools	150,000 – 1.5 million[1]	$100-$500 million[1]
ENCOURAGE GREATER COVERAGE			
Small Employer Tax Credit	For all small employers Credit 40% of employer contribution for firms < 10	1.9-3.1 million[2] (20.4-26.3 million benefiting from credit)	$23.9-$29.3 billion[2]
	25% credit for firms from 10-25	0.5-0.8 million[2]	$5.3-$6.0 billion[2]
	15% credit for firms from 26-50	0.2-0.3 million[2]	$3.0-$3.1 billion[2]
Self-Employed Deduction	Accelerate to 100% immediately	90,000-200,000[3]	$0.8-$1.4 billion 1st year[3]
Individual Tax Deductions	For individuals without employer coverage, including those not self-employed	1.5-3.5 million[3]	$7.8-$8.7 billion[3]
Exclusion of Employee Contributions	For plans other than section 125 cafeteria plans	600,000-900,000[3]	Approx. $6.5 billion[3]
Enhanced MSA Rules	Employer sponsored plans and Individual purchasers	*Insufficient experience to reliably estimate*	*Cost not estimated – minor if full deductibility in place*
Market Deregulation	Eliminate state and federal benefit mandates	1.2-2.4 million[3]	Not Specified[3]
Identified Program Overlap	Overlap between newly proposed programs		*($0.9-$2.4 billion)*
Uncompensated Care	Reduced uncompensated hospital care		*($6-$13 billion)*
	Reduced uncompensated physician's care		*($8-$13 billion)*

[1] HIAA estimate.
[2] Estimate prepared by Dr. William Custer for HIAA.
[3] Estimate prepared by Dr. William Custer for APPWP.
[4] There are, in addition, 3.6 million uninsured children in families with incomes below 100% of the federal poverty level. We have assumed that they would be eligible for coverage under the Medicaid and SCHIP programs.
[5] There are, in addition, 3.7 million uninsured children in families with incomes between 100-199% of the federal poverty level. We have assumed that they would be eligible for coverage under the Medicaid and SCHIP programs.

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