Care for the Commonwealth

The impact of health insurance reform on Virginia

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Executive Summary

As the end of the debate on health insurance reform nears, there are important elements to the legislation that every Virginian should know. The bill contains significant expansions of health insurance coverage, provides subsidies for families and individuals, and includes vital health insurance market reforms and cost control measures.

This report outlines the features of reform related to health insurance and provides information on the rollout of key provisions, along with an explanation of how such provisions may impact Virginians. It also provides information on what the costs for Virginia will be if this legislation fails to pass.

At the broadest level, important benefits of national health reform include:

- A significant expansion of health insurance coverage through the Medicaid program for people with incomes up to 133 percent of the federal poverty level (about $29,000 for a family of four).
- Subsidies to help families earning between 133 percent and 400 percent of the federal poverty level purchase health insurance, and additional subsidies to help some afford the cost of health care services.
- Tax credits for small businesses that provide insurance to their employees.
- Important health insurance market reforms to eliminate harmful practices such as coverage cancellation if someone gets sick, excluding coverage of pre-existing conditions, and caps on coverage.
- Reforms of the Medicare program, including changing the way health care is delivered and paid for in order to improve quality, and making the program more efficient to reduce the future growth in the costs of health care.

A substantial number of Virginians – both insured and uninsured – as well as Virginia businesses would benefit from the provisions currently under consideration in health reform.

Immediate consumer protections and insurance reforms include:

- Insurers would no longer be able to attach lifetime caps to coverage.
- Children would immediately be protected from coverage exclusions of a pre-existing condition.
- Young adults (who have the highest rates of uninsurance of any age group) would be permitted to remain on their parents' private insurance policies until their 26th birthday.
- Insurers would be prohibited from retroactively canceling health insurance policies (known as "rescissions") because of the discovery of a prior pre-existing condition.
- New funding is provided so that people who have been denied coverage because of a pre-existing condition could get the health insurance they need through high-risk pools before the more comprehensive coverage expansions take effect.

Health reform will bring significant expansions of health insurance coverage, subsidies for people to afford coverage, and vital health insurance market reforms.

- Seniors would see their prescription drug costs go down dramatically through rebates and provisions that would gradually decrease cost-sharing for prescription drugs through Medicare.
- Small businesses offering coverage to retirees aged 55-64 would be eligible for subsidies in a new re-insurance pool that could help mitigate the financial risk for this higher cost population.

Further reforms scheduled for 2014 and beyond include:

- Creation of health insurance exchanges that would make it easier for individuals and small businesses to compare policies and get coverage.
- Subsidies that would make it more affordable for almost 700,000 Virginians to purchase private health insurance.
- Subsidies would also be available to help people pay for the cost of health care services.
- Small businesses that provide insurance to their employees would be able to receive tax credits.
- Expansion of public insurance through Medicaid for all children and adults with incomes up to 133 percent of the federal poverty level with generous federal funds to cover most of the costs.

This issue brief's analysis relies on the language in the Senate passed health insurance bill and the proposed amendments from President Obama in assessing the provisions in the legislation.

Background

While the prospects for health insurance reform in Congress have fluctuated significantly throughout 2009 and early 2010, it appears the process is nearing a conclusion. During the debate, both supporters and opponents have sought to define the insurance reform effort, what it would mean for individuals and families, and whether it is a worthy policy goal.

We now know a lot more about the contents that will comprise a final bill. Although the House of Representatives and Senate passed different versions of health insurance reform in 2009, it is likely that reform would adhere closely (with some small changes) to the Senate bill passed on Dec. 24, 2009. Under health insurance reform, millions of Americans who have not had access to affordable health insurance would have an opportunity (often with assistance) to purchase coverage. Those with or without insurance would be protected from insurance price discrimination, any lifetime caps, or denial of coverage due to a pre-existing condition. Public programs like Medicaid and the Children's Health Insurance Program (CHIP) would be maintained and improved to cover even more low-income Americans who cannot afford or access health care.

Subsidies would be available for almost 700,000 Virginians to buy insurance.

Immediate benefits after the bill becomes law include insurance reforms and protections.

As this issue brief documents, health insurance reform would benefit Virginians. Despite being voted The Best State for Business by Forbes magazine and CNBC, Virginia has not placed significant emphasis in recent years on improving our insurance system or increasing access to insurance coverage. This issue brief explains why reform is important to Virginia since it does improve our insurance system and increases access, outlines the major provisions contained in the Congressional legislation and identifies the consequences that failure to enact reform will have for health costs and the uninsured in Virginia.

Virginians Need Health Insurance Reform

Virginia is one of the 10 wealthiest states in the country, yet we fail to provide adequate support for those who cannot access or afford health coverage. Despite our high per-capita income, Virginia ranks 23rd nationwide in the number of uninsured. Approximately 1 million Virginians have been uninsured in Virginia during each of the past three years. One part of Virginia's high uninsured population can be attributed to having a public health insurance program that is not robust. Virginia ranks 48th in per-capita Medicaid expenditures, with some of the most restrictive eligibility standards for both Medicaid and our CHIP program (Family Access to Medical Insurance Security (FAMIS)). Virginia ranks 44th in income eligibility for parents in Medicaid and 43rd in eligibility for children's coverage. A working parent making more than $6,000 a year can't get coverage through Medicaid in Virginia.

The other key contributor to Virginia's high uninsured rate is the weakness of the

non-employer insurance market. For those Virginians that cannot get coverage at work or through public health insurance programs like Medicaid, this is usually their only other option. However, it is not a market that provides secure or affordable coverage to most Virginians. Insurers in the non-employer market can discriminate because of a pre-existing condition and charge substantially higher rates or refuse to cover the condition at all. Insurance can be cancelled or not renewed on short-notice if a person gets sick. Insurers can greatly increase premiums from year to year, often making insurance unaffordable. It simply is not a market that is feasible for most Virginians, especially those who are not in perfect health. Only 5 percent of Virginians purchase coverage in the non-employer private health insurance market.

Even those with coverage at work are struggling. Individuals in Virginia continue to pay a higher percentage of the premium cost for employer-provided insurance than workers in any other state in the country. The percentage of Virginians who get health insurance at work has steadily declined over the last decade, and the trend is likely to continue without reform that will help make insurance more affordable for both workers and employers.

What Would Health Insurance Reform Mean for Virginia?

The legislation under consideration would be a major advancement in providing insurance protections to consumers, new coverage and access to care for the uninsured and those without coverage at work, and in controlling long-term health costs.

Immediate Protections and Insurance Reforms

Many of the insurance reforms would go into effect within the first year of passage, providing real and immediate benefits to Virginians with health insurance coverage. These reforms would make health insurance more stable and secure.

- Insurers would no longer be able to place lifetime limits on coverage beginning six months after health reform is enacted. This means even a major expensive illness like cancer would not cause Virginians to lose coverage. Children would also immediately be protected from coverage exclusions because of a pre-existing condition, and co-pays/cost sharing would be banned for immunizations and well-child visits. In addition, young adults, who have the highest rates of uninsurance of any age group, would be permitted to remain on their parents' private insurance policies until their 26th birthday.

- Insurers would be a prohibited from retroactively canceling health insurance policies (known as "rescissions") because of the discovery of a prior pre-existing condition, unless the insurer can prove that fraud was committed. As the legislation currently stands, insurers would also be required to spend at least 80 percent (and 85 percent in the large group market) of the premiums collected on actual health care services instead of administrative and other costs.

- Most of the Medicare Prescription Drug (Part D) plan "donut hole" would be immediately eliminated by issuing seniors a $250 rebate when they reach the coverage gap. By 2020, it is expected that the donut hole would be fully closed.[1]

- Within three months of passage of health reform, small businesses offering health coverage to retirees aged 55-64 would be eligible to participate in a reinsurance program that would pay businesses for 80 percent of the cost of health insurance claims between $15,000 and $90,000. These payments will help small businesses lower the costs for those enrolled in their health plans and help prevent older retirees who are too young for

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[1] Currently, seniors receive 75 percent coverage on prescription drugs up to $2,700 in total spending. Seniors with total drug costs between $2,700 and $6,100 are responsible for the full cost of the prescription drugs between those amounts, before receiving 95 percent coverage on drugs over $6,100..

coverage under Medicare, but too old to find affordable coverage on their own, from losing coverage at a time when health care is often most needed.

- Finally, recognizing that the major coverage expansions would not occur until 2014, insurance reform would include funding for high-risk pools for people who have been denied coverage because of an illness. These pools would not be able to deny coverage because of pre-existing conditions and would provide real protections to the chronically ill and others who need to continue to receive health care services. Funding for these pools would be coupled with an additional $11 billion in federal funds nationwide for community health centers that treat low-income Americans. Community health centers are valuable providers of safety net care in Virginia and the new funding would allow them to treat even more uninsured Virginians until the coverage expansion takes effect.

Near-Term Reforms

In addition to the immediate provisions, much of health reform would take time to implement. Coverage expansions and new insurance options would likely be implemented in January 2014. These reforms include:

1. A New Health Insurance Marketplace for the Uninsured

Recognizing the failure of the non-employer, individual market for health insurance, health insurance reform would include the creation of state-operated health insurance "exchanges" that would provide choices and a large market for consumers and small businesses to purchase private health insurance coverage. States would be required to adhere to federal minimum standards by offering at least two competing plans from which to choose and ensuring that the health plans meet certain benefit requirements. Unlike the current non-employer market, it is envisioned that the exchanges would have enough people buying insurance coverage for risk to be spread among the healthy and those who use more health care.

The legislation would also prevent insurers from discriminating because of a pre-existing or chronic condition or charging different rates to less-healthy individuals. Health insurance reform would require that most Americans be required to purchase insurance coverage in 2014. All members of Congress and their staff would be required to get their insurance coverage through the exchange.

These reforms go hand-in-hand. By bringing most Americans into the health insurance system, both healthy and non-healthy Americans would be covered, allowing insurers to more effectively spread risk. This would remove the need for insurers to charge different rates or refuse to cover a condition or an individual because of a pre-existing or chronic condition. Without a requirement to purchase health insurance, healthy and younger Americans can opt out of the system and simply sign up for coverage when they get sick. If this occurred, the pool of insurance enrollees would be less healthy and the cost of insurance would be prohibitive (as it currently is for all but the most healthy Virginians in the state's non-employer market).

95 percent of employers in Virginia have fewer than 50 employees, and so would be exempt from employer responsibility provisions.

Who Would Benefit in Virginia? Any Virginian without access to private insurance coverage through their employer would be eligible to purchase private insurance coverage through the exchange. Insurers would not be able to vary premiums based on health status (a rate differentiation of up to 3 to 1 because of age would be allowed).

Although most Virginians would be required to have coverage, many would be eligible for Medicaid, or receive subsidies to help purchase private health insurance.

2. Subsidies available to majority of Virginians Without Coverage

Individual and family subsidies for insurance and help with out-of-pocket expenses

Health insurance reform would provide subsidies to many Virginians purchasing coverage within the exchange. Virginians earning between approximately $22,000 and $88,000 a year for a family of four would be eligible for premium assistance under the reform proposals. The subsidies would prevent individuals from paying more than a certain percentage of income for health insurance. Premium subsidies would be set in the following manner, as shown in Figure 1.

Premium Assistance Under Health Reform

Figure 1: Summary of How Premium Subsidies will Limit Amount Paid Under Health Reform

Income Amount (Family of Four)	**Premium limit as percent of income** (federal subsidies will cover additional premium costs)
$22,000 to $29,000	2 to 3 percent of income
$29,000 to $33,000	3 to 4 percent of income
$33,000 to $44,000	4 to 6.3 percent of income
$44,000 to $55,000	6.3 to 8.1 percent of income
$55,000 to $66,000	8.1 to 9.5 percent of income
$66,000 to $88,000	9.5 percent of income

As an example, the premium charge for a family of four making $29,000 would be $870 a year. The federal government would pay the balance of the cost of the insurance plan to the insurance provider.

Who Would Benefit in Virginia? In Virginia, almost 700,000 individuals could qualify for some level of subsidy credit under health insurance reform. The credits would help provide insurance that is affordable and accessible to those currently without or struggling to afford insurance on the open market.

Additional cost-sharing subsidies to prevent unaffordable out-of-pocket expenses (deductibles, co-pays, etc.) would be available to individuals and families with incomes below 250 percent of the federal poverty level (about $55,000 for a family of four).

Employer Responsibility Requirement

In addition to an individual mandate, health insurance reform would also include an employer responsibility requirement. Recognizing the difficulty of offering insurance coverage as a small business, this bill would exempt businesses with fewer than 50 employees from the employee responsibility requirement. Approximately 95 percent of businesses in Virginia have fewer than 50 employees and would not be required to comply with this provision.

Furthermore, while 5 percent of Virginia businesses might be potentially subject to a penalty for failure to offer coverage, a $3,000 maximum fee would still be significantly less expensive than the cost of providing insurance to their workers. On average, employers in Virginia pay approximately 69 percent of the total cost of family coverage, approximately $8,280 a year. Although some may choose instead to contribute to help offset the cost of the federal subsidies in the health insurance exchanges, the legislative intent is that most businesses would choose to offer coverage. Offering health insurance is an important way for businesses to attract quality workers and remain competitive.

Small businesses providing health insurance can receive subsidies

Many small businesses would also immediately be eligible for tax credits to offset the cost of providing health insurance for their workers. Beginning in 2010 and continuing until the coverage expansions take effect in 2014, small businesses with fewer than 10 workers who earn an average annual wage of less than $25,000 would be eligible for a tax credit equal to 35 percent of the amount that the employer contributes towards premiums. To qualify for this tax credit, the employer must contribute at least half of the total cost of the coverage. Businesses with up to 25 employees who earn no more than $40,000 in annual average wages would be eligible for some portion of the tax credit on a sliding scale basis. When the coverage expansion takes effect in 2014, the credit would be increased to up to 50 percent of the cost of the premium for small businesses that meet the requirement.

Between 2014-2017, the federal government would pay 100 percent of the cost of the new Virginia Medicaid beneficiaries.

Who Would Benefit in Virginia? More than 90,000 Virginia businesses offering health coverage could be eligible for assistance.[2] In Virginia, only 44 percent of businesses with fewer than 50 employees offer health insurance coverage. A recent survey by the Small Business Majority finds that over 75 percent of the small businesses in Virginia that are offering health coverage are struggling with the cost of insurance. Of those not offering insurance to their workers, 92 percent say they can't afford it.

3. Medicaid Expansion Would Benefit Low-Income Virginians

Virginia would greatly benefit from the Medicaid expansion contained in the reform package. The legislation would require states to offer Medicaid to all children and adults with incomes up to 133 percent of the federal poverty level, (about $29,000 for a family of four). In Virginia, approximately 265,000 uninsured people would be newly eligible for Medicaid as a result.[3] This represents more than a quarter of the total uninsured population in Virginia. An additional 235,000 Virginians with family incomes below 133 percent of the federal poverty level have employer-provided insurance, non-group coverage or other public insurance and could choose to enroll in Medicaid coverage, especially if their current coverage is more expensive or less comprehensive and secure.

While the increase of Medicaid in Virginia would significantly expand both the size and the cost of the program, it is a good deal for the state. The federal government would pay most of the cost of the newly eligible. In fact, in 2014-2017, the federal government would pay 100 percent of the cost of the newly

[2] Agency for Healthcare Research and Quality, Rockville, MD.
[3] Holahan, John and Blumberg, Linda. How Would States Be Affected By Health Insurance, The Urban Institute/Robert Wood Johnson Foundation, Washington D.C., January 2010..

covered Medicaid beneficiaries. After the initial four-year period, in 2018 and 2019, the percentage would fall slightly to 95 percent. The following year and beyond, the federal government would finance 90 percent of the cost of coverage for the newly eligible. The 10 percent state share would require an increased commitment to health coverage in Virginia's budget 10 years from now, but the billions of dollars in new federal funds would reduce strain on hospitals and providers that treat the uninsured and increase economic activity that would help create and maintain jobs in the state.

4. FAMIS Program Would Continue

In addition to Medicaid, the health reform legislation would likely allow the Children's Health Insurance Program (CHIP) to continue. That means Virginia's CHIP program, FAMIS, would continue to serve as a source of health coverage for children in families earning below about $44,000 a year (for a family of four). FAMIS is a popular and successful program that provides coverage to more than 155,000 Virginia children.

Nationally, funding for CHIP would be extended through 2016, with new funding expected to operate the programs through 2019. Virginia's program is funded through 65 percent federal funding and 35 percent state funding. In federal fiscal year 2009, Virginia received a block grant of $175 million and would receive $188 million in fiscal year 2010.

Health reform would reduce future growth in health care costs.

5. Lower Premiums = More Jobs in Virginia

Reforms to the health care system would likely have a moderating effect on health insurance premiums. Premiums that have been growing at a rapid rate over the past decade (since 2000, premiums for employer-based insurance have increased by over 75 percent in Virginia) would begin to decline. More premium dollars would go towards paying for actual care, rather than for administrative costs from underwriting and marketing. Better coordination of care, more use of medical homes and other changes to the way we deliver health care would help improve quality of care, reduce inefficiencies, and reduce costs in the long term.

As health care costs for businesses decrease, new money would be freed up to allow for job creation. Recent estimates from Harvard economists suggest that health insurance reform would result in the creation of millions of new jobs nationally over the next 10 years, between 250,000 and 400,000 annually.[4] As the system responds to the needs of the newly insured, the number of health care jobs available would obviously increase. The study also finds that more than 200,000 new manufacturing jobs could be created by 2016, with an additional 75,000 jobs in construction and more than 200,000 jobs in retail and wholesale trade.

Who Would Benefit in Virginia? Over the next 10 years, about 11,000 new jobs are projected for Virginia if health insurance reform becomes law.[5] These jobs would be in all sectors of the economy, as businesses reduce their health care costs and increase job creation efforts.

6. Reform would Reduce Future Growth in Health Care Costs

Reducing the overall growth of health care costs is a primary goal of health insurance

All members of Congress and their staff would be required to get their insurance coverage through the new exchange.

[4] Cutler, David and Sood, Neeraj. New Jobs Through Better Health Care: Health Care Reform Could Boost Employment by 400,000 a Year This Decade, Center for American Progress, Washington, D.C., January 2010.
[5] Cutler, David and Sood, Neeraj. State-by-State Job Creation Estimates from Health Reform, Center for American Program, Washington, D.C., February 2010.

reform. The Congressional Budget Office and other independent analysts indicate that health care costs are growing at an unsustainable rate. The reform legislation seeks to reduce long-term cost growth in a number of ways. By 2013, health insurers would be required to implement a single set of operating rules to determine eligibility and claims status. An excise tax on high-cost health plans would help to lower overall health care spending by encouraging more cost-effective insurance options that limit wasteful or unnecessary care. Eliminating waste, fraud and abuse in Medicare and across our health care system would help reduce spending and improve the quality of care. And the establishment of an independent Medicare Payment Advisory Board would allow for recommendations to reduce the rate of growth in Medicare spending.

John Iglehart, the founding editor of the non-partisan *Health Affairs* wrote in the *New England Journal of Medicine* that "The bills contain no shortage of ideas for reforming the delivery system, enhancing the quality of care, and slowing spending. Pretty much every proposed innovation found in the health policy literature these days is encapsulated in these measures."

Implications if Health Insurance Reform Fails

Without health insurance reform, the status quo in health care for Virginia is not sustainable. Over the next 10 years, health insurance premiums are expected to rise substantially. The cost of health coverage and services would use up a larger portion of households' budgets, and the number of uninsured would likely grow as the cost of Insurance becomes out of reach for an increasing number of Virginians.

1. Uninsured Numbers Would Skyrocket

Without reform, even under the most optimistic scenario, the number and percentage of uninsured Virginians would significantly increase in the next five to 10 years. In one recent study by The Urban Institute, three sets of estimates were produced to predict the best case, intermediate case, and worst-case scenarios in the absence of health insurance reform. Under their best-case scenario, about 100,000 additional Virginians would lose coverage by 2014 (more than a 5 percent increase). By 2019, more than 200,000 additional Virginians would be uninsured (10 percent increase).[6]

In the worst-case scenario, the number of uninsured Virginians would increase by about 500,000 by 2019, an increase of more than 30 percent. These estimates suggest that health care reform is critical to preventing hundreds of thousands of Virginians from joining the ranks of the uninsured.

Without health insurance reform, the status quo in health care for Virginia is not sustainable.

2. Health Insurance Would Become Prohibitively Expensive for Businesses

The cost of private workplace insurance is already very expensive in Virginia. The average individual workplace policy in the state costs more than $4,000, while the average family plan is over $12,000. Even these amounts are proving to be unsustainable, as fewer businesses are able to offer insurance coverage and more employers are passing off additional costs onto the worker.

In the absence of insurance reform, people who have insurance now will pay more for their coverage as the cost of health care continues to rise. Under the most favorable estimate, according to the Urban Institute, the premiums for family insurance at work would increase by 34 percent by 2014 and 75 percent by 2019. Under the worst-case scenario, employer insurance premiums would increase by 45 percent by 2014 and 110 percent by 2019. The average total cost of family health insurance at work would be more than $25,000; an unsustainable increase for many businesses in Virginia.

[6] Bowen Garrett, John Holahan, Lan Doan and Irene Headen. "The Cost of Failure to Enact Health Reform: Implications for States," The Urban Institute, Washington DC, October 2009.

3. Family Health Spending Would Become Unsustainable

As mentioned, Virginians already pay the highest percentage of the premium for individual workplace insurance and are in the top 10 in the percentage paid for family workplace insurance. Total out-of-pocket costs, which include the premium share paid by the employee, co-pays and deductibles, also continue to increase and strain the family budget. By 2014, the percentage growth in individual and family spending on health care could increase by 22 to 30 percent. In 2019, the total increase could be 75 percent more than family spending in 2009, rising to over $15,000 a year.

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