EXECUTIVE SUMMARY

Meaningful Market-Based Health Reform

The Impact of a Proposed Set of Bipartisan Health Reform Options to Improve Insurance Access with Budget Neutrality

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Meaningful Market-Based Health Reform Proposal

Independent Assessment
For Public Dissemination

Summary Snapshot:

Nearly a dozen Democrat and Republican health reform proposals have been suggested between the 2008 Presidential election and the present. All seek to reduce the number of uninsured with some financial incentives or regulatory change. This proposal seeks to present a compromise of Democrat and Republican proposals that will: 1) garner sufficient bipartisan Congressional support; 2) reduce the number of the most vulnerable uninsured; 3) be completely budget neutral without using savings from other programs (e.g., Medicare & Medicaid) that have their own fiscal challenges.

The five critical elements of the proposal are: 1) guaranteed issue insurance coverage no pre-existing conditions exclusion; 2) regional insurance exchanges; 3) a tax on those who choose health insurance benefits greater than $6.5K for single coverage and $13K for family coverage equal to the employee's marginal income tax rate times the amount over those thresholds; 4) an age-adjusted health insurance voucher up to 300% of the federal poverty line (~$66,000 for a family of four); and 5) all insurance plans must offer preventive care benefits.

Below, a summary of the impact of this proposal is presented in terms of the reduction in uninsured, the one-year cost, and the ten-year cost of the plan in 2010 dollars. The program would begin in 2013 and the 10-year cost estimates are for 2010-2019.

Meaningful Market-Based Health Reform Proposal, as of 9/10/2009

☐ Uninsurance is reduced by **35%** (46% if base is US citizens only) to newly cover approximately **17.6 million people**

☐ Subsidy - Tax Recovery = Net cost:
- $49 billion subsidy for voucher, annual 2013
- $50.6 billion tax capture , annual 2013
- Net cost (surplus): -**$1.6 billion for one year**
- Net cost (surplus): -**$15 billion over ten years**

☐ Private market crowd out: Not an issue .

The underlying simulation model used is ARCOLA^{TM}, a proprietary version of a health reform coverage and cost assessment analytic engine. A peer-reviewed presentation of the core model structure is summarized in the journal Health Affairs[1] and a longer version is available as a DHHS report at www.ehealthplan.org

Scoring Components:

Major policy components considering for scoring:

➢ Guaranteed issue insurance coverage/no pre-existing conditions exclusion

➢ Insurance exchanges

➢ A tax on those who choose health insurance benefits greater than $6.5K for single coverage and $13K for family coverage equal to the employee's marginal income tax rate times the amount over those thresholds

➢ An age-adjusted health insurance voucher with the following 2010 amounts:

Age	Individual	Family
18-34	$1,364	$3,058
35-49	$2,237	$4,615
50-64	$3,725	$6,812

➢ Full subsidy up to 200% of the federal poverty line (~$66,000 for a family of four) and subsidy phased down to zero at 300% of FPL.

➢ All insurance plans must offer preventive care benefits.

➢ All plans must use modified community rating: premiums can vary only by geographic region (to be defined), family structure, actuarial value of benefits, and age.

➢ Start date is January 1, 2013.

Summary:

The plan lowers the uninsured by 35% with most of the reduction focused on those with lower incomes. The plan achieves budget neutrality and generates a very small budget

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[1] See Feldman, R., Parente, S.T. et al., "Health Savings Accounts: Early Evidence of National Take-up from the 2003 Medicare Modernization Act and Future Policy Proposals," Health Affairs, 24:6 (November/December, 2005), pp. 1582-1591.

surplus of $15 billion dollars over 10 years. The cost of the plan is less than half of the $900 billion cost of President Obama's 9/9/2009 proposal with total cost of $435 billion over 10 years. With $450.6 billion in tax capture, the proposal is budget neutral and is the most fiscally conservative proposal scored to date.

In contrast to the current House and Senate bills, this proposal is prudent and effective. It will not achieve universal coverage. Instead, it focuses on the most vulnerable uninsured population in terms of age and income with a longer term goal of seeking additional reforms and possibly an individual mandate after implementation. Finally, this proposal could be implemented as soon as 2011. Given the annual and 10-year surplus projections, this would help more Americans sooner and in a budget-neutral fashion.

ARCOLA^{TM} Technical Documentation

The ARCOLA^{TM} model is a micro-simulation model designed to estimate the impact of health policy proposals at federal and state levels. The model predicts individual adult responses to proposed policy changes and generalizes to the US population with respect to health insurance coverage and the financial impact of the proposed changes.

This model was first used for the Office of the Assistant Secretary (OASPE) of the Department of Health and Human Services (DHHS) to simulate the effect of the Medicare Modernization Act of 2003 (MMA) on take-up of high-deductible health plans in the individual health insurance market (Feldman, Parente, Abraham et al, 2005; Parente et al, Final Technical Report for DHHS Contract HHSP233200400573P, 2005). The model was later refined to incorporate the effect of prior health status on health plan choice – a necessary step if one wants to predict enrollment more accurately. The latest model also used insurance expenditures from actual claims data to refine premiums and then predict choices again with the new premiums. The model then iterates the choice model until premiums and choices converge, and then finds an equilibrium state. A subsequent change to the model permitted state-specific predictions of policy changes as well as total federal health policy impact.

Model Components & Data Sources

There are three major components to the ARCOLA^{TM} model: 1) Model Estimation; 2) Choice Set Assignment and Prediction; and 3) Policy Simulation. Often, more than one database was required to complete the task. Integral to this analysis was the use of consumer directed health plan data from four large employers working with the study investigators.

The model estimation had several steps. As a first step, we pooled the data from the four employers offering CDHPs to estimate a conditional logistic plan choice model similar to our earlier work (Parente, Feldman and Christianson, 2004). In the second step we used the estimated choice-model coefficients to predict health plan choices for individuals in the MEPS-HC. In order to complete this step, it was necessary first to assign the number and types of health insurance choices that are available to each respondent in the MEPS-HC. For this purpose we turned to the smaller, but more-detailed MEPS Household Component-Insurance Component linked file, which contained the needed information. The third step was to populate the model with appropriate market-based premiums and benefit designs. The final step was to apply plan choice models coefficients to the MEPS data with premium information to get final estimates of take up and subsidy costs.

Appendix

Sub-population Analyses

We completed a set of sub-population analyses to test the impact of coverage on different groups of Americans. This analysis is focused on the non-public insurance market only.

Impact by Metropolitan Statistical Areas

	Status Quo Population	Population % Change	New Policy Population
Total Insured	164,938,842	4%	171,711,112
Total Uninsured	47,463,524	-32%	32,420,481
Total MSA Uninsured	37,420,558	-32%	25,529,516
Total Non-MSA Uninsured	10,042,966	-31%	6,890,965
Total MSA Insured	138,932,028	4%	144,457,286
Total Non-MSA Insured	26,006,814	5%	27,253,826

Reduction in the Uninsured by Metropolitan Statistical Area
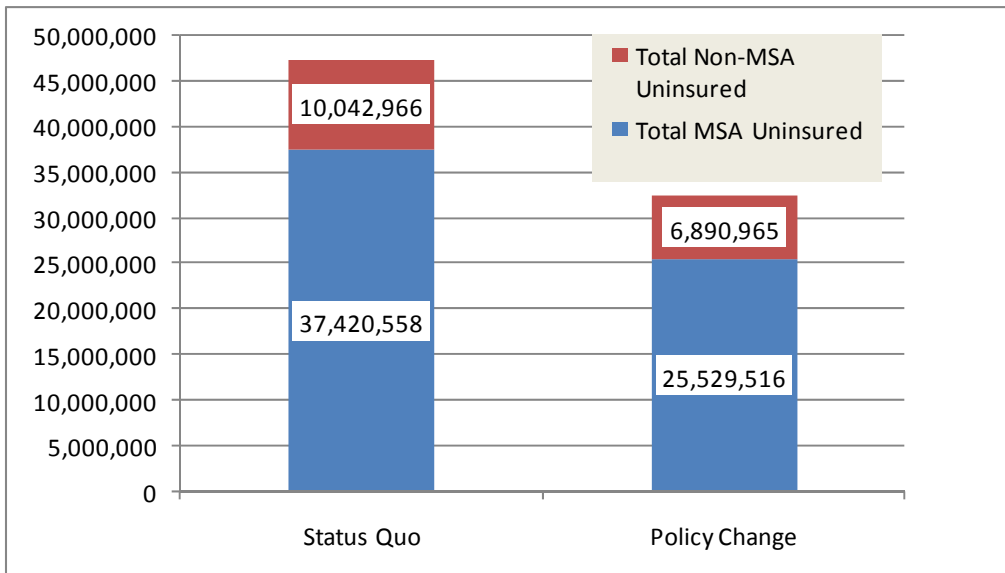
Chronic Illness

Impact by Chronic Illness Presence

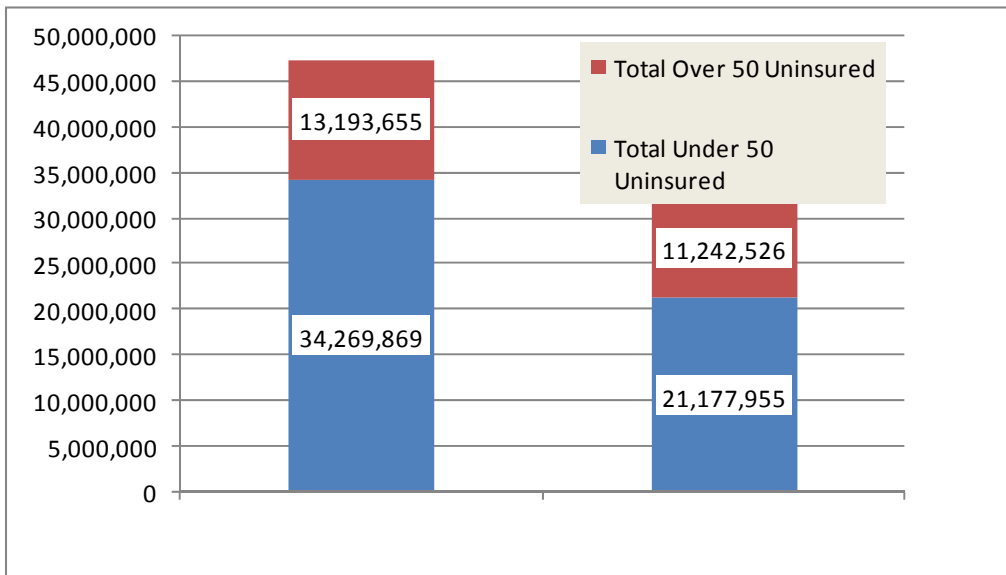|	Status Quo Population	Population % Change	New Policy Population
Total Insured	164,938,842	4%	171,711,112
Total Uninsured	47,463,524	-32%	32,420,481
Total Chronic Uninsured	17,275,050	-15%	14,713,154
Total Non-Chronic Uninsured	30,188,474	-41%	17,707,327
Total Chronic Insured	52,444,983	-3%	50,970,024
Total Non-Chronic Insured	112,493,859	7%	120,741,087

Reduction in the Uninsured by Chronic Illness Presence
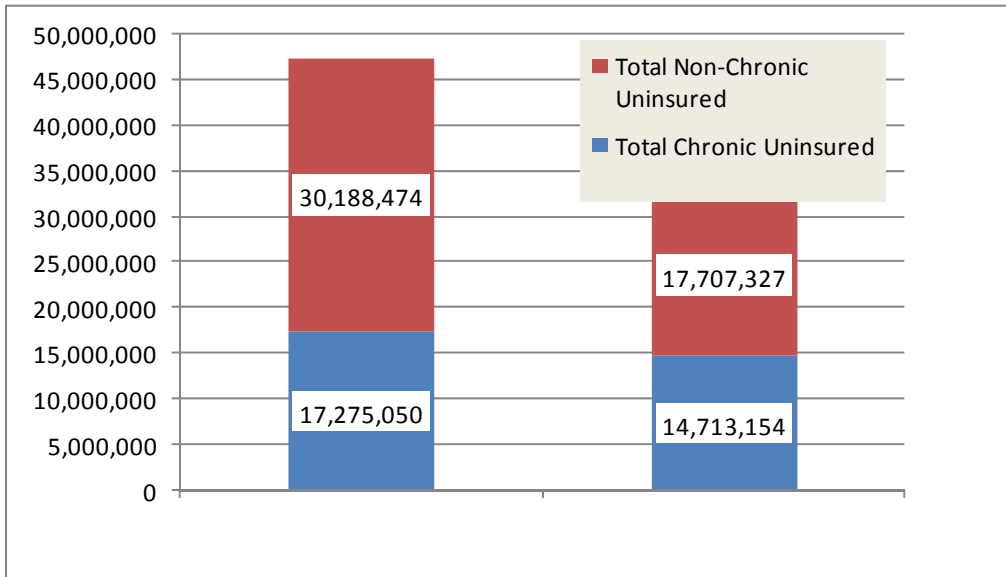
Age

	Status Quo Population	Population % Change	New Policy Population
Total Insured	164,938,842	4%	171,711,112
Total Uninsured	47,463,524	-32%	32,420,481
Total Under 50 Uninsured	34,269,869	-38%	21,177,955
Total Over 50 Uninsured	13,193,655	-15%	11,242,526
Total Under 50 Insured	128,726,573	6%	136,162,194
Total Non-Under 50 Insured	36,212,269	-2%	35,548,918

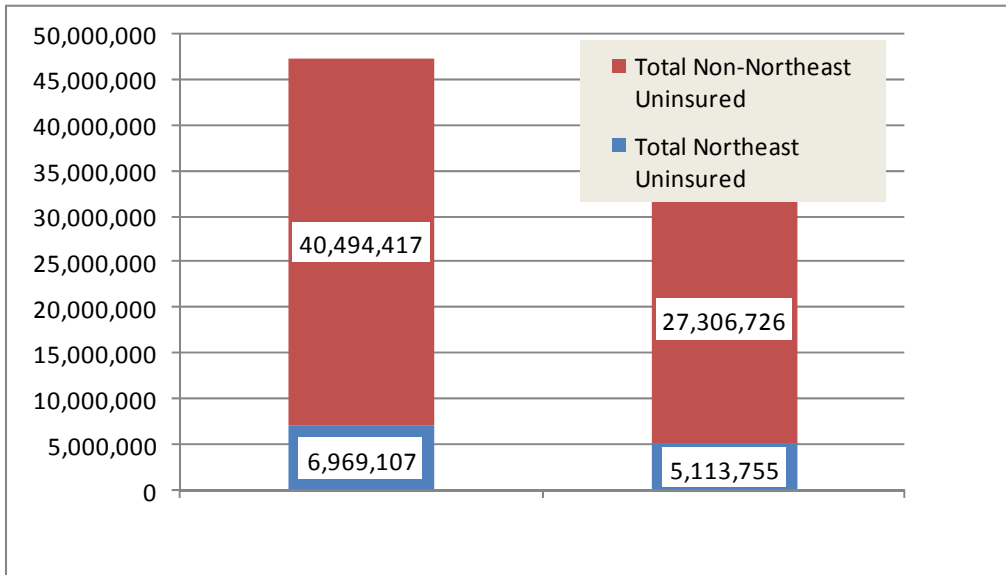Reduction in the Uninsured by Age (over 50 years of age)

Region

Impact by Northeast resident or not

	Status Quo Population	Population % Change	New Policy Population
Total Insured	164,938,842	4%	171,711,112
Total Uninsured	47,463,524	-32%	32,420,481
Total Northeast Uninsured	6,969,107	-27%	5,113,755
Total Non-Northeast Uninsured	40,494,417	-33%	27,306,726
Total Northeast Insured	33,454,689	1%	33,860,903
Total Non-Northeast Insured	131,484,153	5%	137,850,209

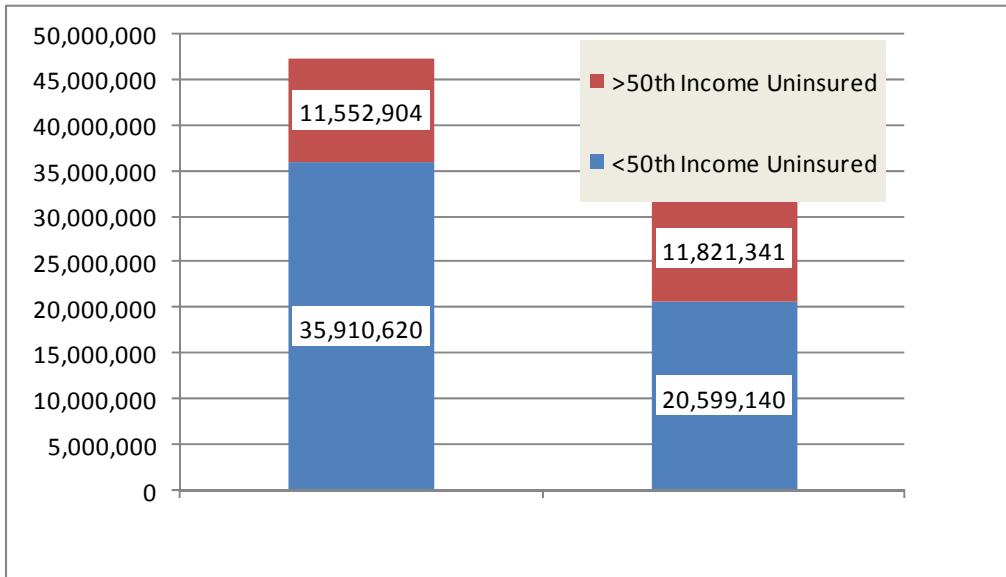Reduction in the Uninsured by Northeast resident or not

<u>Income</u>

Impact by lower 50th percentile of income

	Status Quo Population	Population % Change	New Policy Population
Total Insured	164,938,842	4%	171,711,112
Total Uninsured	47,463,524	-32%	32,420,481
<50th Income Uninsured	35,910,620	-43%	20,599,140
>50th Income Uninsured	11,552,904	2%	11,821,341
Total <50th Income Insured	53,616,627	17%	62,909,121
Total Non-<50th Income Insured	111,322,215	-2%	108,801,991

Reduction in the Uninsured by lower 50th percentile of income

Vulnerable Populations

We define vulnerable populations as those with less 50th percentile of household income and having a chronic illness.

Impact by vulnerable population status (less 25th Income percentile and chronically ill)

	Status Quo Population	Population % Change	New Policy Population
Total Insured	164,938,842	4%	171,711,112
Total Uninsured	47,463,524	-32%	32,420,481
Vulnerable Uninsured	12,943,408	-20%	10,309,481
Non-Vulnerable Income Uninsured	34,520,116	-36%	22,111,000
Total Vulnerable Insured	17,403,089	-1%	17,153,140
Total Non-Vulnerable Insured	147,535,753	5%	154,557,972

Reduction in the Uninsured by vulnerable population status (less 25th Income percentile and chronically ill)