Toward Evidence-Based Health Care Reform Vol. 2, No. 5

What Ever Happened to Common Sense?

On March 23, the Senate's proposed version of health care reform was released. Contrary to popular belief, the Senate proposal does not pare back the House plan, makes more people eligible for benefits, is constructed in a way that will seriously erode the private insurance market, and does not constitute a compromise with the Governor on important points.

There is momentum for this Senate proposal built on a misperception in the press and in the State House that it is a moderate, pared-back proposal that compromises with the Governor. That is simply not the case. We hope the Senate will be convinced to actually pare the proposal back and find a common sense compromise with the Governor, in order to resolve the health care reform debate once and for all.

Here are some of the impacts of the proposed Senate version (draft 1.1 March 22) on employers and employees:

The Growing Cost Shift

1. **The Senate proposal does not cover hospital care. Instead, their bill requires hospitals and hospital-affiliated physicians to provide free care to everyone whose income is below 200% of poverty.** (p. 43 ff.) of the bill.) Also, hospitals and their affiliated physicians will be limited to a sliding scale fee schedule for what they can charge anyone between 200% ($39,900/family 4) and 350% ($70,000/family of 4) of poverty, with the maximum out-of-pocket for this group capped at $2,000.

How does the Senate expect hospitals to cover these unreimbursed costs? **The Senate proposal specifically codifies into law the existing cost shift to private insurance that currently helps pay for charity care. (p. 43-44.) Adding to the problem is that the Senate plan defines who must be given free care by law,** without putting any new money into the system. (p. 44)

2. **By treating the current cost shift for charity care as a "source" of revenue, the Senate effectively is proposing to do what the legislature refused to accept in the Governor's plan last year: creating a premium tax to pay for a new plan for the uninsured.** The full financial burden of hospital care for the uninsured will be paid for by the insured, not by the taxpayers. **(**The Senate bill does not call this a "premium tax." It is called "The Hospital Default Insurance Plan." The bill declares that "uncompensated care is by definition a third party payer, and therefore a form of default insurance," proposing to create by law a premium tax in the form of a radical new accounting concept.)

3. **The Senate proposal increases the cost shift by allowing employers now offering private insurance to move into a Catamount Plan. (p. 36)** Private insurance plans reimburse hospitals and doctors at significantly higher rates than government plans, and help hospitals and physicians cover the unreimbursed costs of Medicaid, Medicare and VHAP patients. When people drop private insurance and move into lower paying government plans, cost shifting to the remaining private payers increases, at the same time the private pool to absorb the shift is shrinking. **There will be less revenue for the hospitals, but hospitals are expected to provide the same services, probably to more people.**

4. The Senate proposal provides **no new revenue to restore last year's $16 million cut to hospitals (which was cost shifted into private insurance rates), and provides no new revenue to reduce the historical cost shift from unreimbursed Medicaid hospital care,** now totaling $59 million a year. (Email cfuller@keller-fuller.com for our fact sheet on Medicaid Cost Shift for your Hospital Service Area.)

5. ***In 2006, the total Vermont Medicaid hospital cost shift exceeded the total federal Medicare hospital cost shift for the first time in history.*** Not surprisingly, the cost shift is one of the primary reasons that health insurance in Vermont is becoming unaffordable. **But instead of attacking the cost shift, this proposal creates a new government plan, and "funds" it with existing cost shift.**

The Impact on Private Insurance

1. The Senate proposal allows currently insuring employers to switch from private coverage to the state plan, where premiums are artificially low because hospital care isn't paid for and providers are underpaid. **Non-profit and for-profit insurance carriers, whose benefits and rates are regulated, cannot possibly compete with Catamount plan rates.**

2. **The Catamount plan could actually attract employers with the highest risk employees and the sickest individuals in the state,** because it will either eliminate or limit their exposure for hospital costs.

3. The proposal **continues to shift costs from Medicaid** onto private insurance, **and adds new Catamount cost shifts, while reducing the pool of privately insured.**

4. Only employer-sponsored plans as rich as Catamount Health will qualify for employee premium subsidies under the Senate proposal. (p. 28) But to qualify, the private plans would have to actually pay for the hospital services. **Because few employers can afford these $5,000+/year plans, few, if any, employees will qualify for these needed premium subsidies.**

5. As premiums grow due to the growing cost shift, more employers will move to Catamount for lower premiums, lower hospital exposure and to qualify their employees for subsidies. **The entire cost shift for Medicaid, VHAP, Catamount and Medicare will be borne by those remaining in the private market.**

6. In the worst case (but not groundless) scenario, our remaining three carriers leave the state, self-insured employers shift to Catamount, and Catamount will be the only coverage available. Who will pay the cost shifts that are required to keep all these state government plans – Medicaid, VHAP and Catamount – afloat, because they all depend on cost shifting? (This is called "the death spiral.")

Providers would have no where to go to make up the difference between the cost of care they are required by law to deliver to anyone in the plan, and what the state will pay. And there will be no carriers for employers and employees to move back to, if the state plans are eliminated or severely cut.

The fact that everyone either working on, or hearing about, health care reform is seriously battle fatigued should not dissuade us from finding a solution this year. There is important work to be done on reengineering our health system to deliver better and more efficient care, to save the Medicaid program and improve lives in Vermont. The citizens of Vermont cannot afford the Governor, legislature, hospitals, doctors and consumer advocates spending yet another legislative term with no results to show for it.

As the historian Barbara Tuchman has noted in her book *The Pursuit of Folly*, **if we allow ourselves to be consumed by "the mesmerizing effect of the Ideal" we will ignore the evidence that warns us to take care.**

Let us not pursue folly. Let us show some common sense instead.