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The Proposed Medicaid Reimbursement Enhancement - the Right Church, But the Wrong Pew.

Governor Shumlin's proposal for a .7% payroll tax to finance health care reform was a bold stroke given the austerity-only pressures to hunker down presented by the current budget circumstances. He correctly understands that it makes more sense to make a modest investment of state-generated resources to leverage even greater additional federal resources. For those who do not recognize this for the profound act of courage that it was, just read a few of Paul Krugman's op eds in the *New York Times* to understand the pervasive grip that wrongheaded cut-our-way-to-prosperity type thinking has had on contemporary policy worldwide.

The heart of the Governor's proposal is that each state dollar invested to raise Medicaid reimbursement rates will leverage $1.10 in federal matching funds, in turn relieving the effects of the Medicaid cost-shift and lowering private insurance premiums by about 5%. This leveraging idea is a sound one, but using a reduction in the Medicaid cost shift is a very ineffective way to provide relief in premiums. In other words, the Governor's budget address has the right church, but the wrong pew.

The first problem is that state regulators are powerless in a majority of cases to ensure that Medicaid reimbursement enhancement will translate into lower premiums. More than half of Vermont's 362 thousand privately insured individuals lie beyond their jurisdiction. ERISA self-insurance plans which cover about 110 thousand Vermonters are entirely unregulated. Another 82 thousand Vermonters are covered either by out-of-state employers, or federal employee and military insurance plans.

Secondly, the approach would do nothing for the premiums paid in the Vermont Health Connect exchange by individuals receiving subsidies and would cut the federal premium assistance credits otherwise available. Premiums for

individuals are capped up to 400% of the Federal Poverty Level (which is almost $100 thousand for a family of four), ranging from 2.5% to 9.5% of income. The federal government pays for the full amount of a premium to the extent it exceeds this cap. Using a payroll tax to reduce the cost of premiums simply means that the premiums paid by subsidized individuals remains unchanged while a portion of the federal support to pay for those subsidies would be relieved dollar for dollar by the state tax. And John Boehner thanks you for it.

The single most cost-effective use of any state funds is to maximize the drawdown of Obamacare's federal premium subsidies.

Priority #1 – Get Everyone Covered This Year

The top priority for health care reform must be to get everyone covered, and to do it this year. In 2014 we cut the number of uninsured by almost half. By the end of the February, 2015 open enrollment period, the uninsured should be down to about 2%. In terms of universal coverage we are at the 2 yard line. It's time to punch it over the goal line, and get everyone covered during the 2015-16 open enrollment period.

Consider where we have come. From the year 2000 to 2011 Vermont managed to increase health care spending 250% -- from $2 billion to $5 billion -- and still not cover everyone. Will we continue to repeat this insanity, or once and for all recognize it for what it is?

The Opportunity Will Not Get Any Better

1) Unprecedented reduction in health care cost growth.

Starting in 2011, the brakes were slammed on runaway health care spending. From 1999 to 2010, health care's bite out of the economy doubled from 10% of GDP to just under 20%. In 2010, the State was predicting that Vermont health care spending would hit $5.9 billion by 2012. But it didn't. Instead it barely nudged over the $5 billion mark instead. Private health insurance premiums grew from $1.850 billion to $1.886 billion – statistically insignificant. This reduction in the growth of health care spending is unprecedented. It will not get any better.

2 Significant Federal assistance.

Starting this year, oodles of federal money have become available not only

to Vermont to cover everyone but to relieve small employers if we're smart about leveraging it. Significant premium subsidies available to those with at or below 400% of the federal poverty level. That's a family income of nearly $100 thousand. Sixty percent of all Vermonters have income at or below that level. Obamacare, coupled with Vermont's premium assistance program, are together now picking up over 2/3 of the overall premium cost for individuals enrolled in the health insurance exchange. But this leaves individuals in the exchange on average still paying more than that by those who get their coverage from work, a hurdle in getting the uninsured signed up in the exchange. Vermont needs to subsidize that gap by significantly enhancing its premium assistance program.

Universal Coverage Is Less of an Undertaking Than Was the Creation of Catamount Health Care in 2006.

By the end of the 2014-15 open enrollment period the number of uninsured should be down to about 15 thousand. So in terms of the number of people covered, the effort is comparable to the State's creation of Catamount Health Care. In 2006 we lacked substantial federal assistance. Now with that assistance, full coverage can be affordably accomplished with a supplemental state enhancement of about $6.

Punching It Across the Goal Line – the Cost of a State Enhancement for the Remaining Uninsured

2014 Uninsured	23,231
Medicaid eligible	6,484
Have available ESI	3,942
Net 2014 exchange eligible	12,805
Exchange eligible after 2015-16 open enrollment period	8,650
Cost of the State enhancement subsidy to help get the rest of the uninsured covered	$6.1 million

Universal Coverage Will In Turn Leverage Hundreds of Millions and Help Get Small Employers Out of the Health Insurance Business.

A supplemental subsidy that significantly cuts the cost of exchange premiums will induce even more small employers to drop coverage in favor of their employees getting individual coverage in the exchange. Under Obamacare, small employers -- meaning those with under 50 full time employees -- have no legal obligation to provide health insurance coverage, and are free to drop it without consequence. Many already have done so with their employees "migrating" to individual coverage in the exchange. This replaced the employer premiums they were paying with federal tax credit subsidies going directly to their employees.

The Number of Individuals Drawn Into the Exchange Determines the ACA Credits Leveraged

Individuals in the exchange	Cost of the enhanced State Subsidy	Payroll tax needed	ACA Credits leveraged
32 thousand	$23 million	.20%	$108 million
55 thousand	$40 million	.30%	$188 million
75 thousand	$53 million	.40%	$253 million
92 thousand	$65 million	.50%	$310 million
125 thousand	$87 million	.67%	$422 million
130 thousand	$91 million	.70%	$434 million
140 thousand	$99 million	.76%	$473 million

If the proposed .7% payroll tax were used to supplement state subsidies in the exchange, it could help get about 130 thousand Vermonters – almost all of those now insured by small employers -- into the exchange. This would leverage Obamacare the premium tax credits and relieve over $400 million in health care premiums paid by Vermont small employers. This is a huge economic stimulus.

Universal Coverage Will Reduce Hospital Uncompensated Care Expenses.

Hospitals are granted an expense allowance in their annual budgets approved by the GMC Board for uncompensated care. Universal coverage will have

replaced much of that uncompensated care with 43 thousand new paying customers. The 2014 allowance was in excess of $60 million. It was reduced very slightly for 2015, but clearly not accounting for the drastic reduction in the uninsured experienced in 2014 and to be experienced in 2015.