HOUSE HEALTH CARE
SENATE HEALTH AND WELFARE
January 15, 2014

VERMONT
HEALTH CARE REFORM

Moving from Financing Concept to Finance Plan: Major Headwinds

- Our federal and state funding estimates for Green Mountain Care are less than expected.
- Critical policy choices not included in previous reports cost more money.
- Our economy is growing more slowly than we had expected.
- Easing the transition for thousands of small Vermont businesses into Green Mountain Care is necessary but extremely expensive.

What Changed from Previous Reports?

	Then	Now
Federal Contributions: •ACA waiver estimates	2013 ACA waiver estimate assumed $267 million in federal funding.	Current estimate is $106 million, a $ 161 million reduction.
Administrative Savings: •Hsaio Report •2013 Report	Both reports assumed hundreds of millions of dollars in savings in first year.	Not practical to achieve. State government and providers need to partner to bend cost curve over time.
State Funding: •State Medicaid •State Fiscal Position	2013 Report estimated $637 million in State Medicaid funding.	Current State Medicaid Funding estimate is $150 million lower.
	Both reports included continuing provider taxes.	Replacing provider taxes cost $158 million, but keeping them is bad policy in universal system.
	Slow recovery from recession	Continued slow recovery and pressure on state budget, including $75 million reduction in General Fund over fiscal years 16-17.

What's in the numbers?

What is assumed?

- 94% of costs are covered by health plan, ACA covered services (no adult dental/vision).
- On average, 6% are paid by Vermonters when services are received.
- Health care costs grow only at 4% after 2017, and the provider tax is ended.

Who is included?

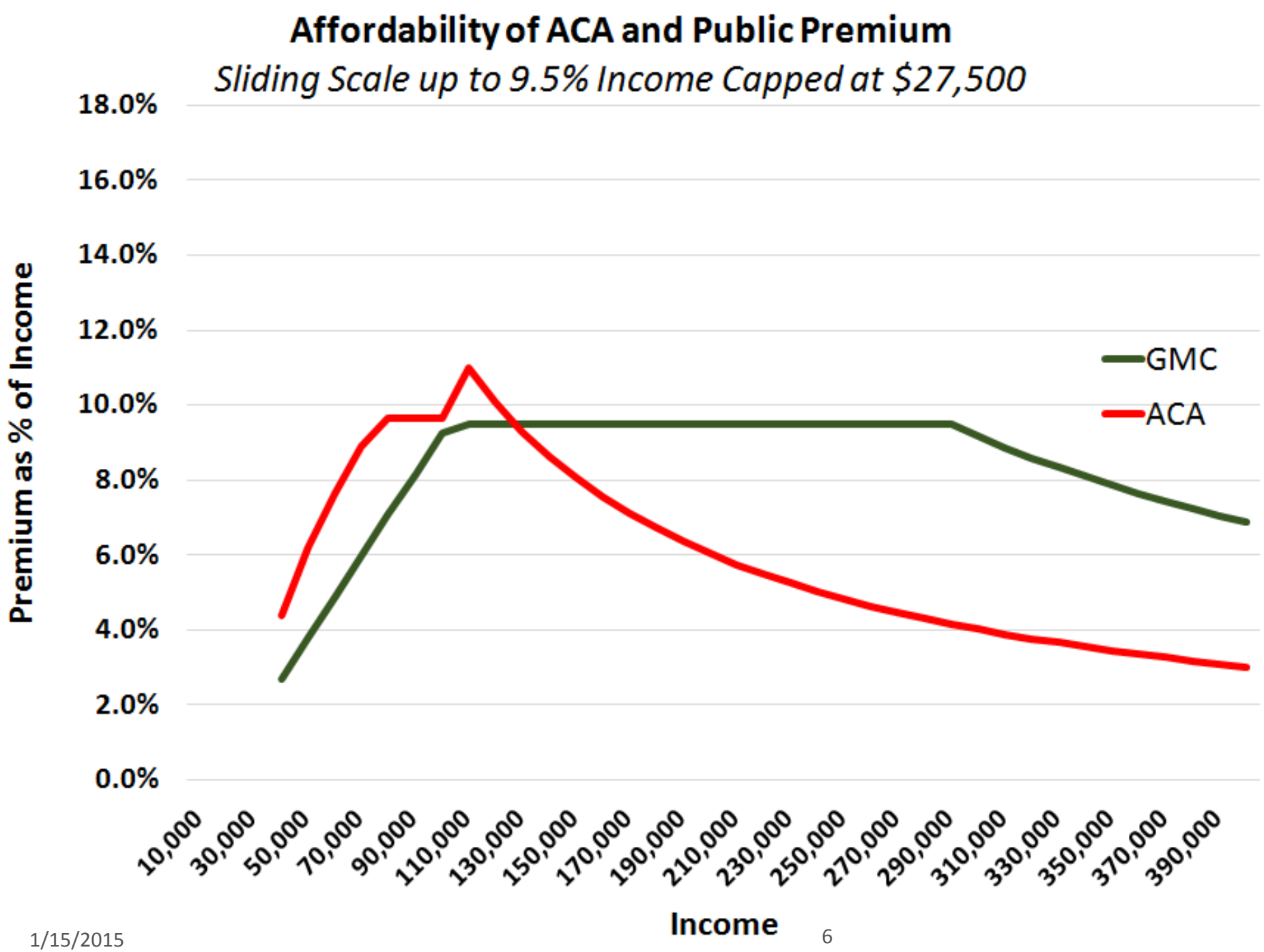
- All Vermonters, except those on Medicare and TRICARE.
- All employees working for Vermont businesses.

How Much Does It Cost?

Given headwinds, what does it take to pay for Green Mountain Care?

- Uniform payroll tax would have to be:
  - **11.5 % tax** on all Vermont businesses on their qualifying Vermont payroll, no exceptions and no transitions

- Income Based Public Premium would have to be:
  - Sliding scale from **0%-9.5% of income**, depending upon income and family size,
  - Requires all Vermonters over 400% FPL ($102,220 for family of 4 in 2017) to pay 9.5% of income, capped at $27,500.


Affordability of ACA and Public Premium
Sliding Scale up to 9.5% Income Capped at $27,500
Premium as % of Income
18.0%
16.0%
14.0%
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
10,000
30,000
50,000
70,000
90,000
110,000
130,000
150,000
170,000
190,000
210,000
230,000
250,000
270,000
290,000
310,000
330,000
350,000
370,000
390,000
Income
GMC
ACA

94 AV Plan Balance Sheet

Year	2017	2018	2019	2020	2021
Spending (All Values in Millions)					
Cost of GMC Coverage and Operations	-4,340	-4,579	-4,820	-5,001	-5,177
Current Law Revenue Estimates					
Federal Medicaid Match	1,310	1,364	1,413	1,445	1,505
Federal ACA Waiver Funding	106	118	122	125	132
State Medicaid Dollars	344	341	350	358	369
New Revenue Needed	**-2,580**	**-2,756**	**-2,935**	**-3,073**	**-3,174**
Payroll Tax of 11.5%	1,510	1,542	1,574	1,606	1,639
Public Premium up to 9.5% or $27,500	1,247	1,306	1,359	1,372	1,381
GMC Fund Fiscal Position	**177**	**92**	**-2**	**-95**	**-154**

- Runs deficit by Year 4
- Provides no transition for small companies. Helping small businesses would reduce revenue by **$500+ million**, equivalent to **4% more payroll** or **50% increase in income tax for residents.**

Does not meet Governor's policy priority to transition small businesses into Green Mountain Care over time.

Alternatives we considered:

- Lower Benefit Plan
  - 80AV not acceptable because:
    - Step down in benefits for majority of Vermonters.
    - Vermonters would see their net family income **decline**.
    - Only 14% less expensive.

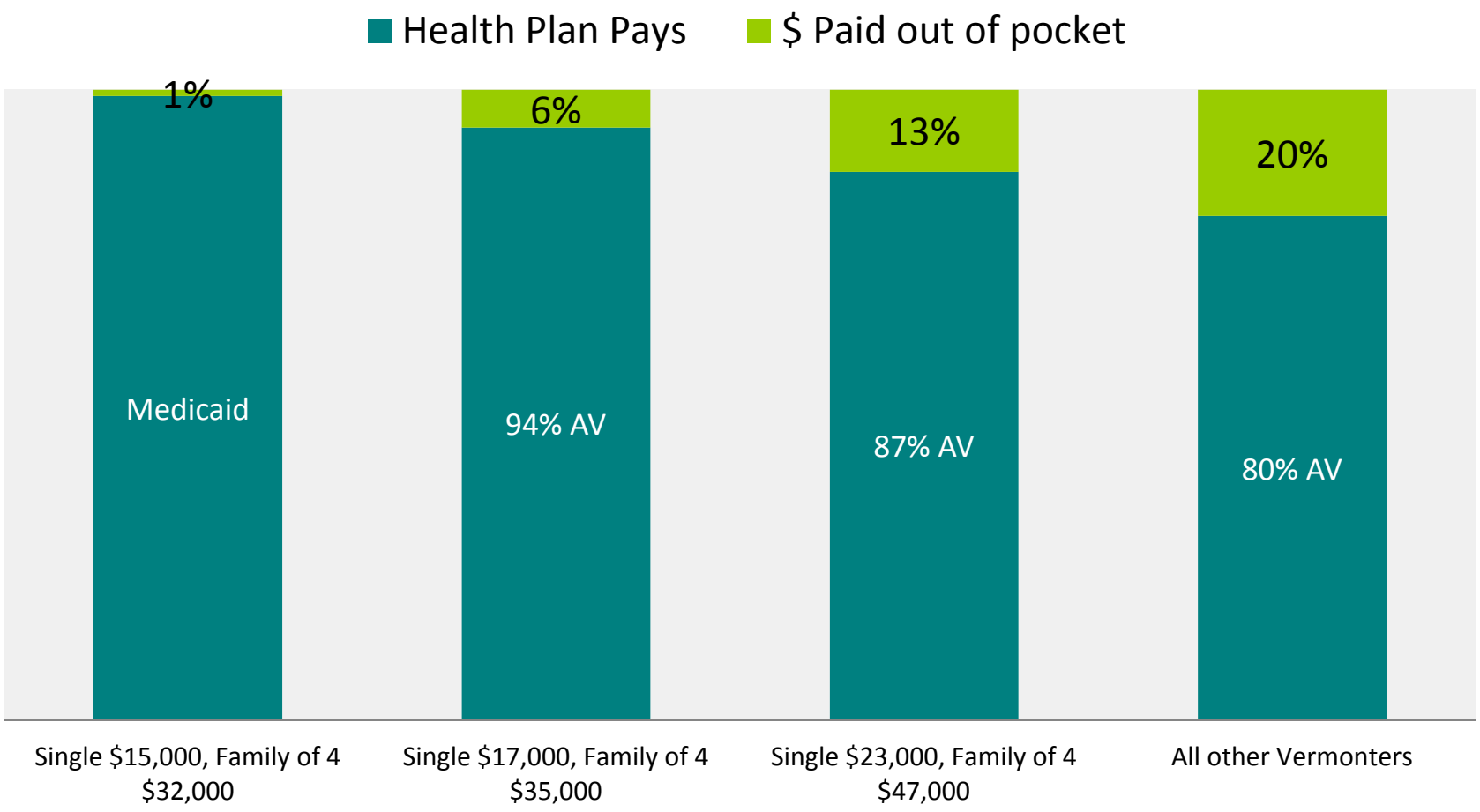
- Other policy choices
  - Excluding out of state employees commuting to Vermont businesses saves $200+ million but adds enormous complexity for businesses.
  - Keeping provider tax funding saves $160 million but continues a complex, hidden, and burdensome tax on health care in Vermont.

Drilling Down on GMC

- Benefit Considerations

- Finance Considerations

Cost Sharing: Legal Parameters



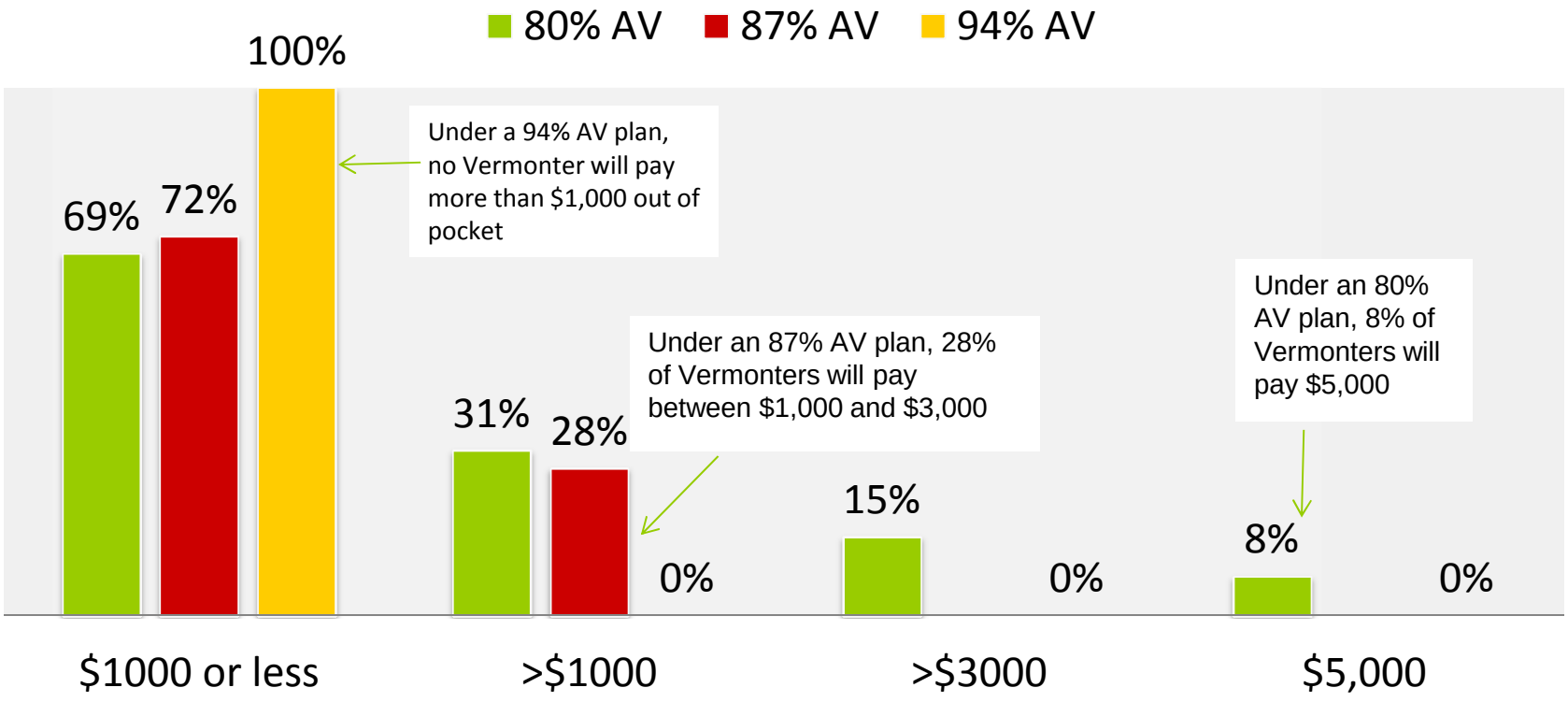
Note: Income listed at 2014 FPL levels

Cost Sharing: Approach

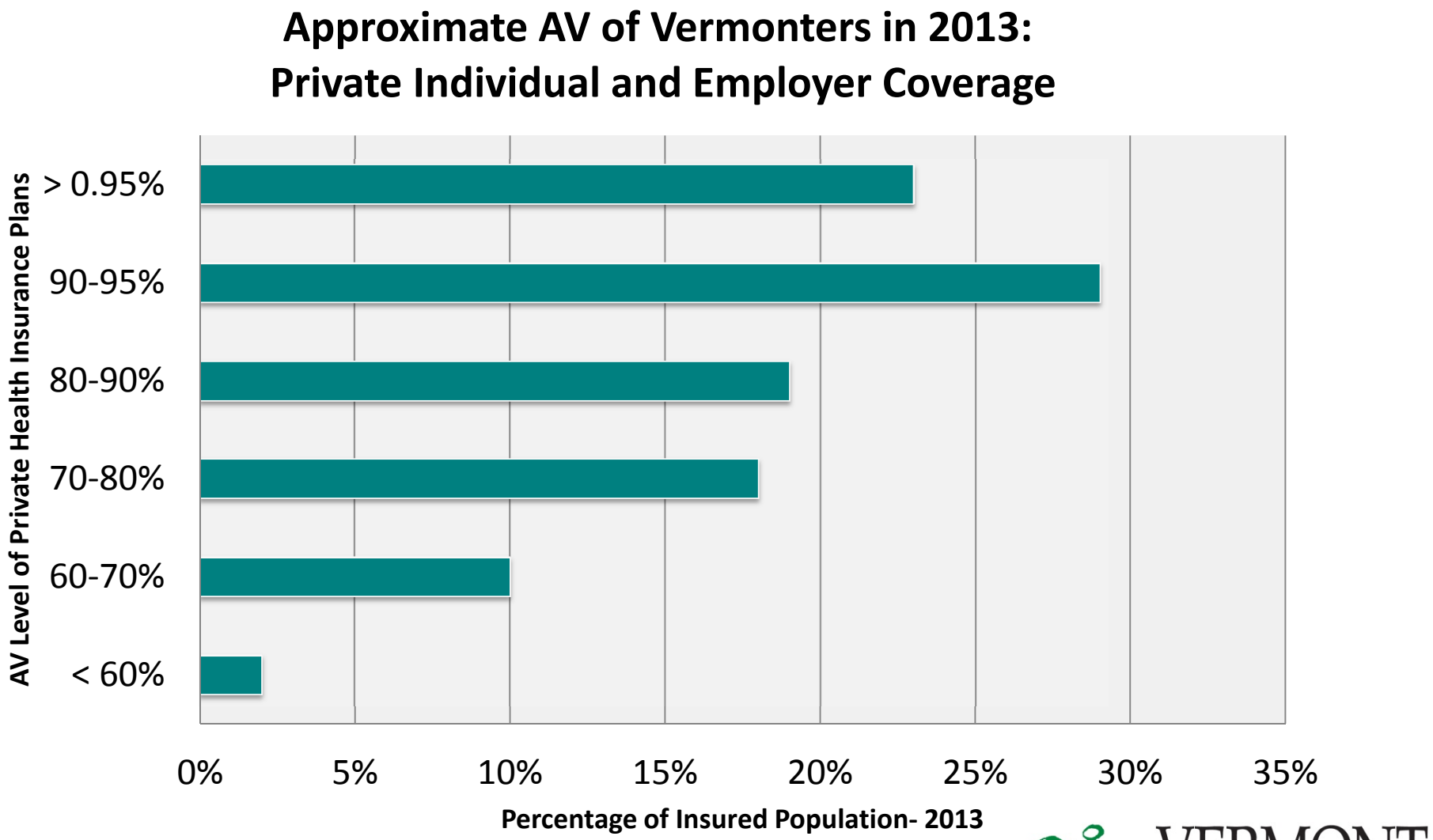
	80% AV	87% AV	94% AV	Medicaid AV
Option 1: Co-pay plan	Out of pocket costs look too expensive	✓	State employee plan No deductible No MOOP	
Option 2: Deductible Plan	✓	Catamount equivalent	✓	
Option 3: HDHP	✓ ✓	Does not meet HDHP requirements	Does not meet HDHP requirements	

Level of Cost Sharing: Considerations

How much Vermonters will be paying out of pocket for typical deductible plans and % of Vermonters paying it



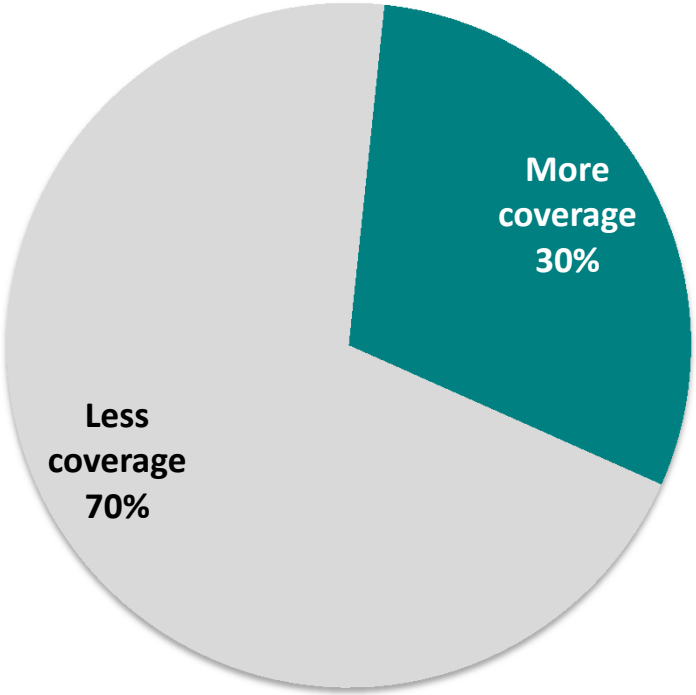
Level of Cost Sharing: Considerations



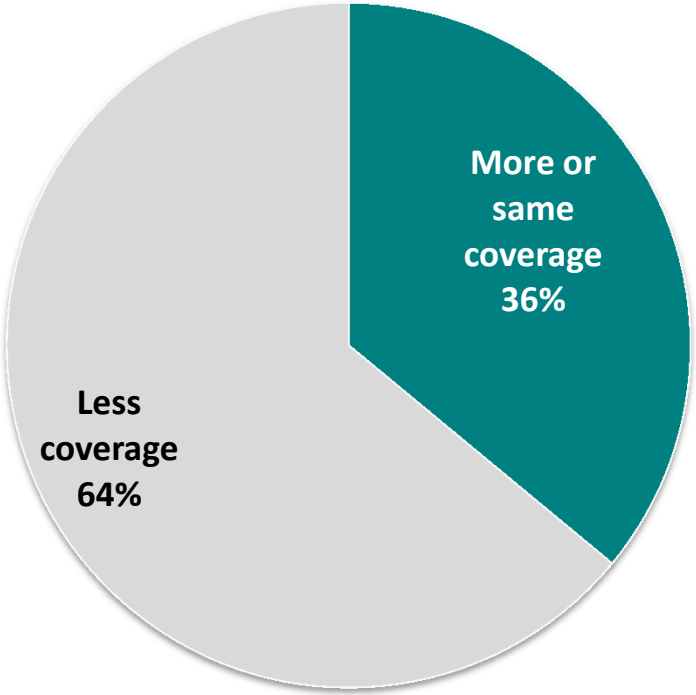
Level of Cost Sharing: Considerations

2013 private individual and employer coverage population at the 80% and 87% AV levels

80% AV



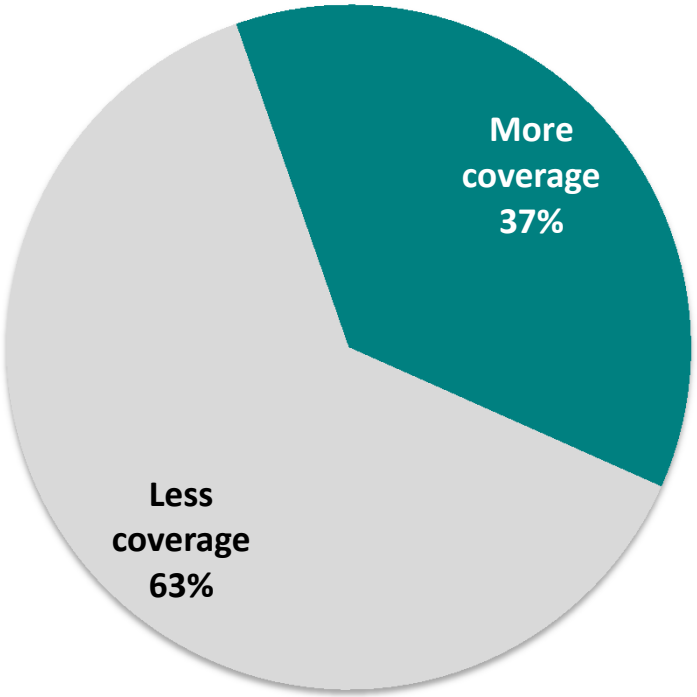
87% AV



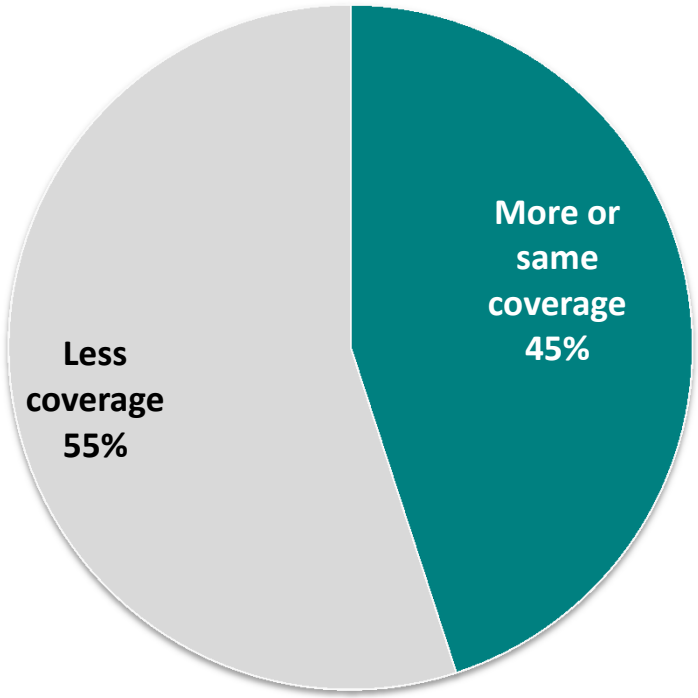
Level of Cost Sharing: Considerations

2013 private large group employer coverage population at the 80% and 87% AV levels
(State and education employees excluded)

80% AV



87% AV



94% AV

- It is consistent with current coverage in Vermont
  - As of 2013 more than 50 percent of Vermonters who had purchased health insurance or had health care coverage through their employer had a similar level of cost-sharing.
- Reduces complexity
  - One plan for all Vermonters not eligible for Medicaid funding, instead of some subsidized plans for some Vermonters
- It eliminates the variation in coverage across the market, ensuring that all Vermonters have access to affordable coverage regardless of health status.

What Did We Learn in the Big Picture?

- Cost containment is still the lynchpin of success
  - –You can have a more sustainable trend and still have health expenditures grow faster than revenue/economy.
- Need to fix Medicaid first
  - –Transition to GMC would be easier with sufficient and sustainable Medicaid funding that replaces problematic revenue streams.
- Commuters represent a big and expensive policy question
  - –Commuters require you to import substantial tax burden, but excluding commuters makes things more difficult for businesses.
- Reserves are a critical difference between State and federal health programs
  - –You own both sides of risk, deviation in claims experience and revenue risk.
  - –Irresponsible to proceed without both types of risk addressed.

What Did We Learn in the Big Picture? (2)

- Demographics are a complex issue in GMC
  - GMC specific tax base grows slowly but migration to Medicare lowers trend.

- Reform would be more straightforward if ACA were settled law
  - Implementation of ACA, including looming Cadillac Tax, very likely will change coverage and cost considerations.
  - ACA waiver funding remains a wild card, which may improve over time.

- Everybody needs to be in GMC.
  - We do not believe that you can exclude any type of business and have a viable program.

What Did We Learn in the Big Picture? (3)

- We can solve the ESI/federal tax expenditure issue
  - Finance plan used three strategies to protect value of ESI
    - Payroll tax replaced many employer ESI contributions
    - Schedule A deduction allows GMC tax contribution to be deductible for top 1/3 of taxpayers, replacing some employee contributions and then some.
    - Incidence of tax, along with wage and out of pocket impacts, helps low and middle income families.
    - Strategies have the advantage of not requiring a waiver.

- Economic analysis shows potential for Vermont families over time

- Businesses that pay little or nothing now are still a huge challenge
  - Distribution of VT businesses makes transition expensive & difficult to address.