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TO: Vermont LEADS Board
FROM: Peter Sterling
RE: Analysis of Governor's GMC Financing Report
DATE: January 12, 2015

I have gone through the Governor's single payer financing report and its appendices in depth (finally) and here's what I think:

- The Governor did not "cook the books" so he could get out of proposing a financing plan for GMC;
- I am 100% certain that we can enact a universal publicly funded health care system sometime shortly after 2017/18.

I believe the work the administration did researching these financing options revealed two structural problems in Vermont that prevented us from implementing a financing package for GMC:

1. Health care costs are still growing faster than the economy. This means always raising revenue to keep up with financing GMC (or even worse, cutting benefits). I believe the work of the GMC Board, combined with eliminating the Medicaid cost shift and the implementation of the all payer waiver, should, beginning in 2017, allow Vermont to keep the rate of growth of health care close to 4%/yr. Until this happens, it is going to be extremely difficult to finance GMC.

2. There are still too many Vermonters, in the public and private sector, with employer-sponsored health insurance who are insulated from high-cost sharing, because over 50% of Vermonters with private insurance are in plans with greater than 90% AV. Consequently, a majority of Vermonters have no idea how much or how unfair the current system of financing health care is, nor do they understand yet how the world of the ACA will change that to their disadvantage in the near future. As long as that is true, a sizeable number will be resistant to, or highly suspicious at best, of any move to a publicly financed health insurance plan.

<u>There are two changes coming to the ESI landscape that are likely to make GMC more viable:</u>

- The ACA's "Cadillac Tax", which begins in 2018, should help to change the conversation about GMC. Roughly, this tax will make it more expensive for any employer to offer 90% or better AV plans over the long term; for example, in 2018, generally speaking, a family plan costing more than $27,500/yr will trigger the tax.

Employers facing the Cadillac Tax will be compelled to consider changing their health plans to avoid paying it, and they will have to lower premiums to do that, which will entail eliminating or curtailing benefits or raising OOP costs. The latter costs will undoubtedly be borne, immediately or over time, to a significant or substantial degree, by employees. An increase in unreasonable cost sharing across this population, or a reduction in benefits, will create a critical opening to help these people better understand the cost benefits of GMC.

- Due to the financial incentives in the ACA, over the next few years we expect more and more business, especially small and medium-sized ones, to drop insurance, forcing their employees to enroll in the Exchange as individuals. This transition will mean that more workers will no longer be insulated from high OOP costs previously due to their employer's high-AV plan and contribution to their health care (again, a contribution most employees are largely unaware of). Once these individuals are directly confronted with the high OOP costs in the Exchange, they, too, I believe, will be inclined to look more favorably on GMC. If every Vermonter (or at least a much greater number than now) is enrolled in the Exchange as an individual, the conversation over a $2.5b tax package to finance GMC would be much different.

These problems were exacerbated by three policy decisions the Governor insisted on as part of GMC. Contrary to what some observers think, the provisions below were <u>not</u> added at the last minute to weigh down the GMC proposal so it couldn't lift off.

Policy decision #1: Include commuters, i.e., out-of-state residents who work in Vermont. Due to the demographics of these workers, this added $200m to the bill for GMC. The governor did this at the behest of the business community, to eliminate entirely their role in providing insurance. Clearly, this is not mandatory.

Policy decision #2: Limit financing of GMC to only a payroll tax and income assessment. For political reasons as we know, there is only so high you could push a payroll tax if you wanted to truly show a savings to the business community. This is generally, I believe, in the 10% range (as perspective, every 1% of a payroll tax generates about $130m in revenue). And, given that there isn't really that much personal income in Vermont, there are real limits to how high the personal assessment could be as well.

Policy decision #3: Eliminating the provider tax. While it certainly makes sense to eliminate the provider tax to create a truly transparent financing system for GMC, it could be done so over time, such as during the three year phase in for small businesses. If you have some tolerance for a temporary lack of transparency, there is no reason to get rid of it and the $150m it generates a year.

So, there are alternatives in the appendices that call for new taxes ranging from $1.7-$2.6b, financed by various combinations of a payroll tax and a sliding-scale income tax. However, this does **not** include any money to transition small businesses to GMC who currently pay nothing for health care. The report estimated needing $500m just to phase in the payroll tax over three years for these businesses.

<u>I think this is probably the most important political problem we faced</u>. It is simply impossible to ask a small employer to incorporate a 8-10% payroll tax beginning January 1, 2017. Restaurants, convenience stores, small shops on Main St, Vermont, etc., simply don't operate on margins high enough to be able to pay this all at once. In addition, I also don't think it is politically feasible to ask employers to "pay twice," i.e., pay what they are paying now for health insurance, plus an additional payroll tax to build up this transition fund prior to the beginning of GMC.

And, as reference the UMASS report "accounted" for this $500m for transitioning businesses that don't offer health care to a payroll tax through projections of federal dollars from Medicaid and the Affordable Care Act that were much higher than what the feds eventually agreed to.

However, over time more employers drop insurance, more Vermonters will enter the Exchange and receive federal assistance, which we can then put towards financing GMC. This, of course, will help us lower the overall new tax bill

necessary to fund GMC. In addition, the administration thinks it is possible to get the feds to give Vermont more for funding its Medicaid program, which will also help lower the **new** tax bill for GMC.

So, some kind of financial phase-in is absolutely mandatory for businesses that don't offer insurance. Which brings us to the need to raise an additional $300-500m in the first three years of GMC to fund this transition. Sadly, there just aren't that many ways to skin this cat. One option the Governor rejected was a wholesale readjusting of our tax system such as eliminating the corporate income tax and sales tax and replacing it with a broader gross receipts tax. This would, for the first time, tax things that are untaxed, but are an integral part of our modern economy, such as legal services.

So, should this kind of tax reform happen in the near future, which is certainly not out of the question, it would be much easier to design a financing plan for GMC. In other words "a 21st century revenue system to match a 21st century health care system"