The Health Care For All Californians Act: Cost and Economic Impacts Analysis

Analysis Based Upon SB 921 as of April 30, 2004 With Clarifications Provided by Author's Staff

Prepared for:

Health Care for All Education Fund

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Table of Contents

LEWIN GROUP EXPERIENCE

The Lewin Group has over 18 years experience in analyzing the impact of health reform initiatives on major stakeholder groups including employers, providers, governments and consumers. The Lewin analyses are based primarily upon a model of the U.S. healthcare system called the Health Benefits Simulation Model (HBSM), which first came to prominence in 1989 when it was used to estimate the cost of alternative universal coverage proposals for the Bipartisan Congressional Commission on Health Care. Since then, the model has been used to analyze a broad range of health reform proposals at the state and federal levels. In 2002, the model was used to estimate the impacts of nine alternative health reform proposals for California under the State Planning Grant project sponsored by the California Health and Human Service (CHHS) Agency. The project was funded by the U.S. Health Research and Services Administration (HRSA), SB 480, and the California Endowment.

This analysis was directed by Mr. John Sheils, a vice president with the Lewin Group, who is a nationally known expert on designing and evaluating health coverage expansion proposals. He joined Lewin in 1980 and has worked to establish the firm as one of the few independent sources of information on the financial impacts of major health reform initiatives. He has testified before various congressional committees and often works directly with members of Congress in evaluating and developing health reform initiatives. Mr. Sheils recently completed a comparative analysis of ten major health reform proposals for the Robert Wood Johnson Foundation (RWJF). A detailed documentation of HBSM is available upon request.

EXECUTIVE SUMMARY

In this study we estimated the impact of covering all California residents under a single health plan. The proposal that we analyzed is the "Health Care for All Californians Act: SB 921", (hereafter referred to as the "Act") introduced in February of 2003, with clarifications provided by the authors' staff through April 30, 2004. This analysis does not reflect any changes to the bill that may have occurred since that time.

The program would cover a broad range of health services for all California residents, including an estimated 4.7 million Californians who are currently uninsured. Premium payments to insurers would be eliminated for employers and individuals, except for coverage of services not covered by the program. Instead, the system would be funded with current spending for government health programs and new taxes to replace the premiums eliminated under the program.

We estimated the amount of health spending in California under current law in 2006 for the various payers in California including employers, households, the federal government and state and local governments. We then estimated health expenditures for each of these payer groups assuming the Act is implemented in 2006. The difference between estimated spending in 2006 under the Act and the estimated amounts spent in 2006 under current law, provide estimates of the impact of the program on spending for each payer group. Estimates of the cost impacts of the Act are provided for employers by firm size, industry, households, by age, income level and other demographic characteristics.

The Health Care For All Californians Act (SB 921)

The Act would cover all Californians under a single health plan that is administered and funded by the state. The program would replace all current public-sector insurance systems for Californians including: Medicare, Medi-Cal, Healthy Families, and military dependent coverage. It would also replace private health insurance plans in the state (with the exception of insurance purchased to cover services not covered by the Act. However, the medical component of the workers compensation system would be unchanged and would continue to operate separately for work related illnesses. The program would be financed with current government health care funding for discontinued programs, a payroll tax to replace employer benefits plans and other taxes to replace the premiums currently used to finance health care in the state.

The program's benefits package covers a broader range of services than are now covered under many health plans. The program would cover medically appropriate hospital inpatient and outpatient care, emergency room visits, physician services (including preventive care), prescription drugs, lab tests, mental health and substance abuse treatment, eyeglasses and other services. The program would also cover home health and adult daycare services for the aged and/or disabled. Dental care would be covered along with vision exams and hearing. It would not cover cosmetic surgery, some orthodontia and private hospital rooms (unless medically necessary).

There generally would be no deductible or co-payments for services under the program. However, to encourage the use of primary care services, patient visits to physician specialists without referral by a primary care provider would not be covered. Medi-Cal benefits would be continued under existing eligibility rules for the services that are now covered under Medi-Cal, but that would not be covered under the Act such as nursing home care.

In the initial year of the program, provider payment levels would be set so that the amounts paid under the Act are on-average equal to what providers are receiving for these services from the various public and private payers under the current system. Spending in future years would be determined through a budgeting system that is required to limit the growth in health spending so that it does not exceed the long-term rate of growth in state Gross Domestic Product (GDP).

State-Wide Health Spending Under The Act

We estimate that total health spending for California residents under the current system will be about $184.2 billion in 2006. This includes spending for benefits and administration currently covered by all payers including governments, employers and families. We estimate that the Act would achieve universal coverage while actually reducing total health spending for California by about $8.0 billion (***Figure ES-1***).

Figure ES-1
Changes in State-Wide Health Spending Under The Act in 2006

		Amount (in millions)
Current Health Spending [a/]		**$184,234**
Increases in Utilization		
Utilization Change for Uninsured		$5,872
Utilization Change for Currently Insured Who Lack Coverage for Specific Services (i.e., Drugs, Mental Health, Dental etc.)		$4,450
Home Health Utilization		$1,476
Elimination of Cost Sharing		$9,472
Increased Primary Care Emphasis		($3,408)
Reduced Fraud (State Subpoena Powers)		($793)
Total changes in Utilization		$17,071
Spending Offsets		
Bulk Purchasing		($5,204)
Prescription Drugs	$4,418	
Durable Medical Equipment	$786	
Administrative Costs		($19,860)
Insurer Administration	$9,686	
Hospital Administration	$3,560	
Physician Administration	$6,614	
Total Offsets		($25,064)
Net Change in Health Spending Under The Act		
Net Change		**($7,995)**

[a/]Excludes public health.
Source: Lewin Group estimates using the Health Benefits Simulation Model (HBSM).

We estimate an increase in health services utilization of about $17.1 billion as comprehensive health insurance coverage is extended to all Californians. This would be more than offset by savings of $25.0 billion due to administrative simplification and bulk purchasing of prescription drugs and medical equipment.

The increase in health services utilization ($17.1 billion) would occur as comprehensive coverage is extended to all Californians. There would be an increase in utilization of health services of about $5.9 billion as uninsured Californians (about 4.7 million people in 2006) become covered. There also would be an increase in utilization among currently insured people who currently are not covered for some of the services covered under the Act such as dental care and prescription drugs ($4.4 billion), and increased home health services utilization of about $1.5 billion. Utilization would increase by an additional $9.5 billion due to the elimination of deductibles and co-payments. These utilization increases would be partly offset by savings due to expanded use of primary care ($3.4 billion), and improved fraud detection resulting from the subpoena powers the state would have in investigating claims ($793 million).

The cost of these increases in utilization would be more than offset by savings from administration simplification and bulk purchasing savings. The Act would replace the current system of multiple public and private insurers with a single source of payment for all covered services, resulting in savings of about $19.9 billion in insurer and provider administrative costs. Savings from bulk purchasing of prescription drugs and durable medical equipment (e.g., wheelchairs) would be about $5.2 billion.

Thus, the cost of increased utilization of health services under the program is more than offset by the savings in administration and bulk purchasing. The net savings in health spending for California would be about $8.0 billion if fully implemented in 2006, which is equal to about 4.3 percent of total health spending in the state.

State and Local Government Spending

Program expenditures under the Act would be about $166.8 billion if fully implemented in 2006. This includes about $150.2 billion in payments to providers for primary and acute care services and about $13.7 billion in spending for long-term care services (***Figure ES-2***). The cost of administration under the program would be about $2.9 billion, which is equal to about 1.8 percent of total program costs.

Funding sources for the Act would include funding for existing government health benefits programs and new dedicated taxes under the program to replace the premiums used to finance health care in the current system. Total government spending for discontinued programs would be about $72.1 billion in 2006, of which about $54.9 billion is federal funding for Medicare, Medi-Cal and other federal health benefits programs. This assumes that federal law is changed to transfer federal funds for California residents under these programs to the Act, which would then be responsible for covering these beneficiaries. It also includes about $17.2 billion in state and local government funding for Medi-Cal, Health Families and other safety-net programs.

Figure ES-2
Sources and Uses of Funds Under The Act
in 2006 (in billions)

		Amount (in billions)
Uses of Funds Under The Act		
Total Benefits Payments		$163.9
Primary and Acute Care	$150.2	
Long-Term Care	$13.7	
Administrative Costs		$2.9
Total Program Costs		**$166.8**
Sources of Funds Under The Act		
Funding for Existing Government Programs for Californians		$72.2
Federal Spending	$54.9	
State and Local Spending	$17.2	
Dedicated Taxes		$94.6
Employer Payroll Tax (8.17 percent) [a/]	$55.7	
Employee Payroll Tax (3.78 percent) [a/]	$25.8	
Self-Employed Business Income Tax (11.95 percent) [a/]	$8.3	
Non-wage/Non-business Tax ($3.5 percent) [a/]	$3.5	
Surcharge on Incomes over $200,000 (1.0 percent)	$1.3	
Total Sources of Funds		**$166.8**

Net Savings to State and Local Governments Under The Act		
Savings in State and Local Worker Health Benefits		**($0.9)**

a/ There is a floor on taxable income of $7,000 and a ceiling on taxable income of $200,000 for each of these taxes.

Source: Lewin Group estimates using the Health Benefits Simulation Model (HBSM).

The balance of program funding ($94.6 billion) would be revenues from newly created taxes that replace existing premium payments for employer-sponsored insurance (ESI), and individual payments for health insurance premiums. These taxes include:

- An employer payroll tax equal to 8.17 percent of wages and salaries for all employees ($55.7 billion);
- An employee payroll tax equal to 3.78 percent of wages and salaries for all workers ($25.8 billion);
- A tax on net business income for the self-employed of 11.95 percent ($8.3 billion);
- Tax on unearned income of 3.5 percent ($3.5 billion); and
- Surcharge on income over $200,000 of 1.0 percent ($1.3 billion).

There is a floor on taxable income of $7,000 and a ceiling on taxable income of $200,000 for each of these taxes, except the surcharge on income over $200,000.

In addition, state and local governments would save about $900 million in spending for health benefits provided to state and local government workers and retirees. This is because the

payroll tax payment for these workers under the Act would be less than what state and local governments are now paying for worker and retiree health benefits. As a consequence, the net cost of the program to state and local governments is a savings of about $900 million in 2006.

Impact on Private Employers

We estimate that under current law, private employers in California will spend about $49.6 billion on health benefits for employees, dependents and retirees in 2006 (includes employer costs less employee contributions; excludes workers compensation). This includes about $46.8 billion in spending for workers and dependents and $2.8 billion in spending for retirees. Under the Act, this coverage would be eliminated and replaced with a payroll tax of 8.17 percent on earnings between $7,000 and $200,000 for each worker.

Employers who currently offer health benefits would find that their payroll tax payment ($41.7 billion) is on average about 16 percent less than what they will pay for health benefits under current law in 2006 (i.e., savings of about $7.9 billion). This is even after accounting for payroll tax payments for employees that are not now covered under the employer's plan. Firms that do not now offer insurance would pay about $9.4 billion in payroll taxes in 2006.

Private employers that now offer insurance will spend about $4,723 per worker in 2006 under current law ***(Figure ES-3)***, reflecting the high cost of insurance for small groups in the current system. Average spending per worker for currently insuring firms would actually decline by about $775 under the Act to about $3,947 per worker. Firms that do not now offer coverage would also pay the payroll tax. The average cost per worker in these firms would be about $2,290.

Savings would be greatest for insuring firms that provide the most comprehensive coverage. For example, currently insuring firms that cover 80 percent or more of their employees would on average see savings of about $2,186 per worker (***Figure ES-4***). On average firms that cover 80 percent or more of their workers would see savings across all firm size groups.

Household Impacts

Under current law, Californians will have out-of-pocket spending for health services and health insurance premiums averaging about $2,788 per family in 2006 (***Figure ES-5***). This includes family premium payments and employee contributions for ESI averaging $1,558 per family, and direct payments for health services including insurance co-payments of $1,229 per family.

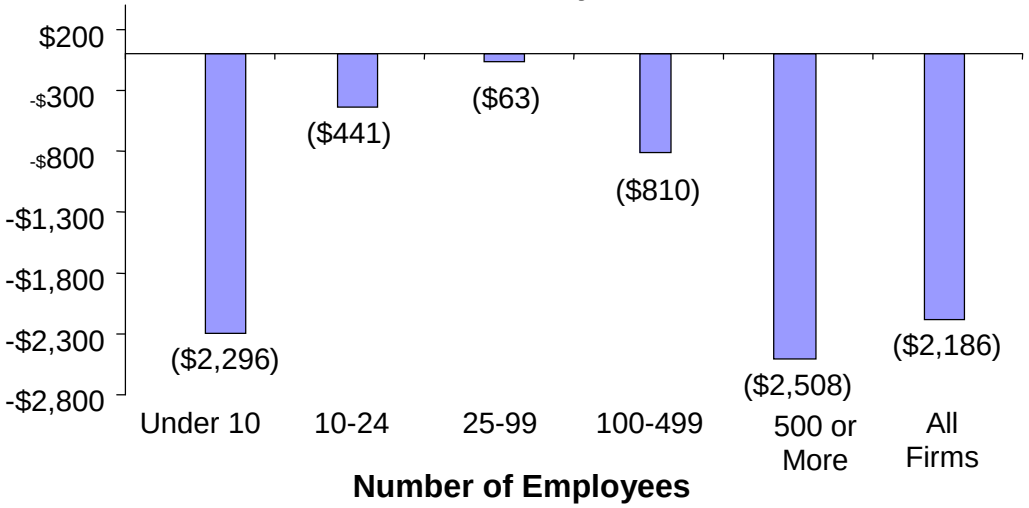
We estimate that average family spending for health care would decline to about $2,448 per family under the Act in 2006, which is an average savings of about $340 per family. This reflects the elimination of nearly all premiums and co-payments for health services, offset by the new household tax payments created to replace premium payments under the current system. It also reflects changes in wages as employers adjust to changes in spending for health care. Thus, households on average see a net reduction in health spending, even after we account for the new taxes that households would pay to replace current premium financed health insurance system.

Figure ES-3
Change in Average Employer Health Spending Per Worker in California by Firm Size Under the Act in 2006 [a/ b/]

	Firms that Now Offer Insurance [c/]			Firms That Do Not Now Offer Insurance		
	Spending per Worker Under Current Law in 2006	Change in Spending per Worker Under The Act in 2006	Spending per Worker Under The Act in 2006	Spending per Worker Under Current Law in 2006	Change In Spending per Worker Under The Act in 2006	Spending per Worker Under The Act in 2006
Firm Size						
Under 10 Workers	$5,864	($1,400)	$4,464 [d/]	--	$2,557	$2,557
10 – 24 Workers	$4,363	($311)	$4,052	--	$2,462	$2,462
25 – 99 Workers	$3,272	$379	$3,651	--	$1,522	$1,522
100 – 499 Workers	$4,079	($85)	$3,994	--	$1,708	$1,708
500 + Workers	$5,503	($1,978)	$3,525	--	$1,807	$1,807
All Private Firms						
All Private Firms	$4,723	($775)	$3,947	--	$2,290	$2,290

a/ Includes employer health benefits expenses for workers, dependents and retirees less the premium contribution required from participants.
b/ All figures include hourly and salaried workers and the self-employed. Payroll taxes for the self-employed in this table include the share of the payroll tax they would pay if they were an employee (8.17 percent). The remainder of the self-employed payroll tax (3.78 percent) is counted as a family tax payment below in the household impacts analysis.
c/ Includes the change in total employer spending for health insurance, including retiree costs, divided over the total number of active workers in the firm including both participating and non-participating workers.
d/ Cost under the Act for small firms that now offer coverage would continue to be higher than among other firms because the majority of small firms that now provider insurance have more highly compensated workers (law offices, doctors etc.), and therefore would pay a higher payroll tax amount per worker than most other employers.
Source: Lewin Group estimates using the Health Benefits Simulation Model (HBSM).

Figure ES-4
Change in Employer Costs Per Worker For Insuring Firms Currently Covering 80 Percent or More of Their Workers by Firm Size Under the Act



Source: Lewin Group estimates using the Health Benefits Simulation Model (HBSM).

Figure ES-5
Change in Average Family HealthSpending in California Under the Act in 2006 [a/]

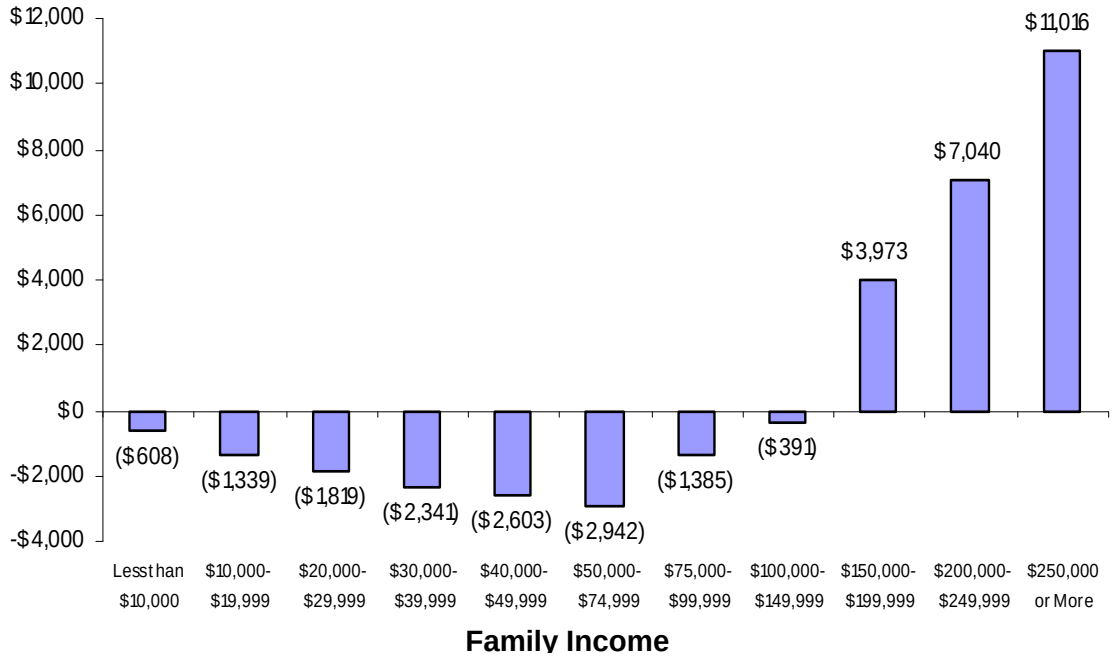
	Average Spending per Family Under Current Law in 2006	Average Spending per Family Under the Act in 2006	Change in Spending Under the Act in 2006
Age of Family Head			
Under Age 25	$985	$702	($283)
Age 25 – 34	$1,963	$1,702	($261)
Age 35 – 44	$2,743	$2,938	$195
Age 45 – 54	$3,555	$3,561	$6
Age 55 – 64	$3,624	$2,709	($915)
Age 65 and older	$3,150	$1,875	($1,275)
All Families			
Total Families	$2,788	$2,448	($340)

a/ Includes changes in premiums, out-of-pocket expenses and wages less new taxes to replace premium payments under the program.
Source: Lewin Group estimates using the Health Benefits Simulation Model (HBSM).

Savings would vary with age of family head, with the greatest savings occurring among families headed by someone age 65 and older. Savings for these families would average about $1,275 per family in 2006 reflecting the fact that older people tend to have the highest health spending, and generally would not to be subject to the payroll taxes because most elderly are not employed. There generally would be savings to all age groups except those headed by someone age 35 to 44, where spending would increase by about $195 per family.

Families with under $150,000 in annual income would on average see savings ranging between $600 and $3,000 per family under the program in 2006 ***(Figure ES-6)***. However, health spending for families with $150,000 or more in income would on average increase from what they pay under current law. This reflects the fact that the program would shift California from a premium-financed health care system to a tax-financed system where total family tax payments for health spending generally would be in proportion to family earnings and income.

Figure ES-6
Change in Average Health Spending per Family by Income Group Under the Act in 2006 [a/]



a/ Includes changes in family out-of-pocket payments for premiums and health services, and changes in tax payments and wages resulting from the Act.
Source: Lewin Group estimates using the Health Benefits Simulation Model (HBSM).

Spending in Future Years

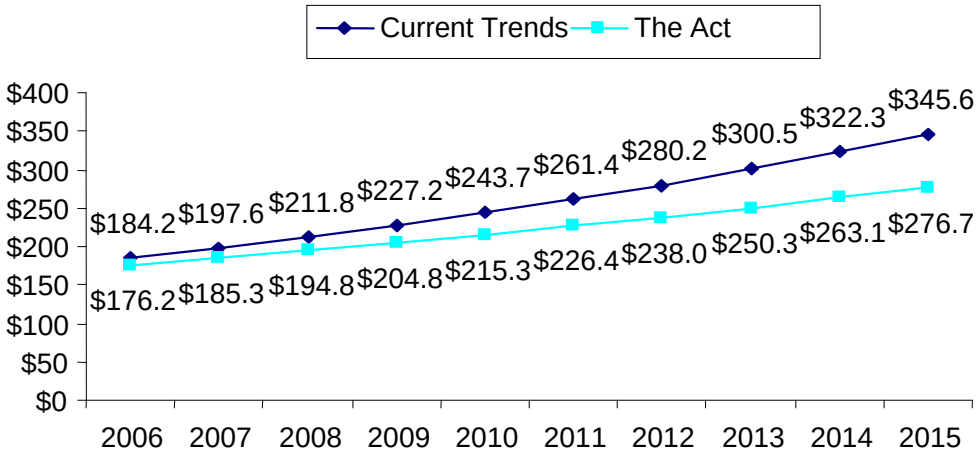
The program would have long-term impacts on health spending in California. The growth in total program expenses under the Act would be constrained not to exceed the long-run rate of growth in state gross domestic product (GDP), which is projected to be about 5.14 percent per year between 2006 and 2015. Total statewide health spending would increase from about $184.2 billion in 2006 to $345.6 billion by 2015 under current trends (***Figure ES-7***).

These state-wide health spending estimates include the cost of all health spending including both services covered under the Act and services not covered under the Act such as some nursing home spending.

By 2015, health spending in California under the Act would be about $68.9 billion less than currently projected (i.e., $345.6 billion). Total savings over the 2006 through 2015 period would be $343.6 billion. Savings to state and local governments over this ten-year

period would be about $43.8 billion. This reflects savings in health benefits for state and local government workers and the reduced rate of growth in state and local government contributions to the Act resulting from spending controls over time.

Figure ES-7
Projected Growth in Health Spending for California Under Current Trends and The Act: 2006-2015 (in billions)



Source: Lewin Group estimates.