# ON THE HEALTH RECORD

Health Care Policy Newsletter of the Public Affairs Research Council of Louisiana — October 2009


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Each year state officials make decisions about health and hospital programs to provide essential services to Louisiana's medically indigent, aged and disabled. More than 30 percent of the state budget is spent on health care. These are arguably the most important public policy decisions that will be made at the state level over the next several decades.

PAR is the only independent organization solely focused on providing public policy research for the citizens of Louisiana. We have never taken state government funds.

PAR's research and analysis provide Louisiana citizens and decision-makers with an independent, reliable and knowledgeable resource to evaluate proposed changes. This newsletter series places a spotlight on some of the facts and figures central to the public debate and explored further with in-depth PAR reports available at www.la-par.org.

# NATIONAL HEALTH REFORM AFFECTS LOUISIANA'S OPTIONS FOR REFORM

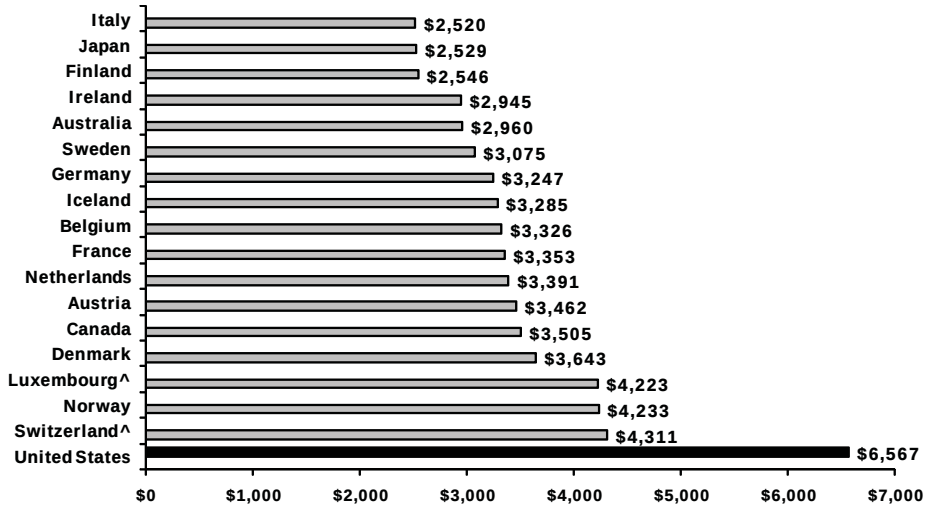
Major reform in both national and state health care policies is necessary to avoid a complete collapse of public health care systems at all levels of government. Health care costs are rising at an alarming pace and the draw those services have on federal, state and local budgets is compounded by the fact that as the population ages more people than ever are eligible for publicly funded care.

Health care reform in Louisiana is effectively at a standstill while federal and state officials negotiate a handful of funding disputes, such as the New Orleans charity hospital FEMA reimbursement and the pending sharp increase in the state share of Medicaid costs, among other items. Meanwhile, federal authorities are devising a national health care reform plan that surely will affect the cost and level of services the state will have to provide in the future.

Although there is still vast confusion and controversy regarding what new policies and laws will arise out of the current push for national reform, a few things are clear. Health care spending per capita in the United States is the highest in the world. Health care costs to private citizens and to government are rising more quickly than inflation and earnings. Administrative costs for health insurance products are a major cost driver. National reforms will affect the costs and service levels of the Louisiana Medicaid program, charity hospitals and insurance options for employers and individuals.

Figure 1 shows that per-capita health care expenditures in the United States (including public and private spending) was $6,567 in 2006, which is more than $2,000 per person higher than the next highest-spending nation, Switzerland.

**Figure 1. Per Capita Total Current Health Care Expenditures, U.S. and Selected Countries, 2006**




^ OECD estimate.

Notes: Amounts in U.S.$ Purchasing Power Parity, see www.oecd.org/std/ppp; includes only countries over $2,500. Total Current Expenditures on Health is defined by the OECD as the sum of expenditures on personal health care, preventive and public health services, and health administration and health insurance; it excludes investment. United Kingdom not included because it does not provide a breakdown of Total Health Expenditures into Current and Investment expenditures; the Total Health Expenditure Per Capita for the UK in 2006 was $2,760.

Source: Organisation for Economic Co-operation and Development. OECD Health Data 2008, from the SourceOECD Internet subscription database updated October 2008. Copyright OECD 2008, http://www.oecd.org/health/healthdata. Data accessed on 11/12/2008.

Figure 2 shows the 10-year trend of insurance premium increases nationally for both single and family coverage. Family coverage costs are rising at a much faster rate. Family premiums in Louisiana average $12,491 per year and have increased by 91 percent since 2000. Employer coverage is declining, and the insured pay premium costs inflated by about $900 per year to subsidize the costs of the uninsured, according to estimates for Louisiana. It is estimated that 40 percent of Louisiana citizens are uninsured or receive Medicaid benefits.

Figure 3 compares the trend in premiums to inflation and workers' earnings over the past 10 years. This comparison demonstrates that premium costs have risen by 131 percent while inflation and earnings have risen at only 28 percent and 38 percent, respectively.

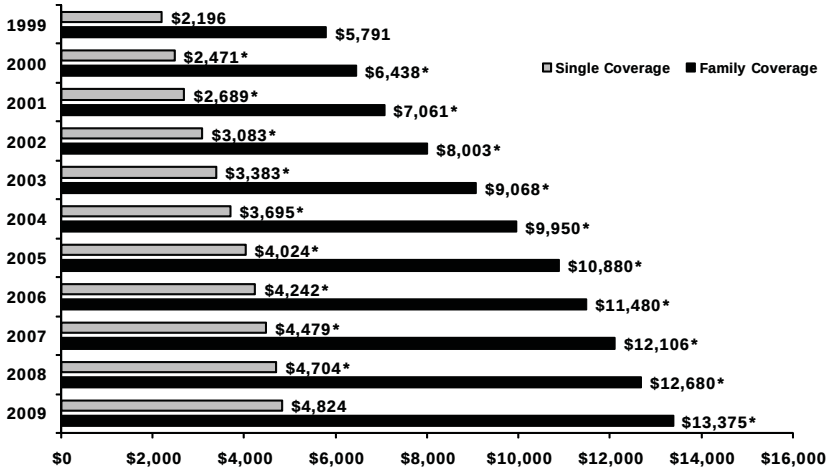
Figure 4 shows that the administrative costs for private health insurance plans are more than five times what they were 20 years ago. The cost per person covered has risen from $90 in 1986 to $482 in 2007.

Senate Finance Committee Chairman Max Baucus has sponsored a bill that is the leading health overhaul bill in Congress. The following key elements of the proposed changes are important to the Louisiana health care debate:

- Individuals would be mandated to obtain coverage.
- Insurance would be purchased through exchanges with cost-sharing credits.
- Employers with 50+ workers would have to provide coverage or pay a fee for workers with tax credits.
- Starting in 2014, Medicaid would be expanded to all with incomes below 133 percent of poverty level.
- Excise tax would be charged on high-end health plans.
- Pooling mechanisms would be established.
- Minimum standards for benefit design would be established
- Insurers would have to accept all applicants, could not limit coverage for pre-existing conditions and could not vary premiums to reflect health differences
- Aggressive cost containment for Medicare/Medicaid would be implemented.
- DSH allotment for states would be reduced by 50 percent when uninsured population is reduced by 50 percent.

The Congressional Budget Office (CBO) is the most reliable resource for estimates of the cost of the proposed changes. It is continuing to analyze the proposed legislation as amendments are made. The CBO Oct. 6 estimate shows a 10-year total cost savings of $81 billion based on increased costs of $829 billion offset

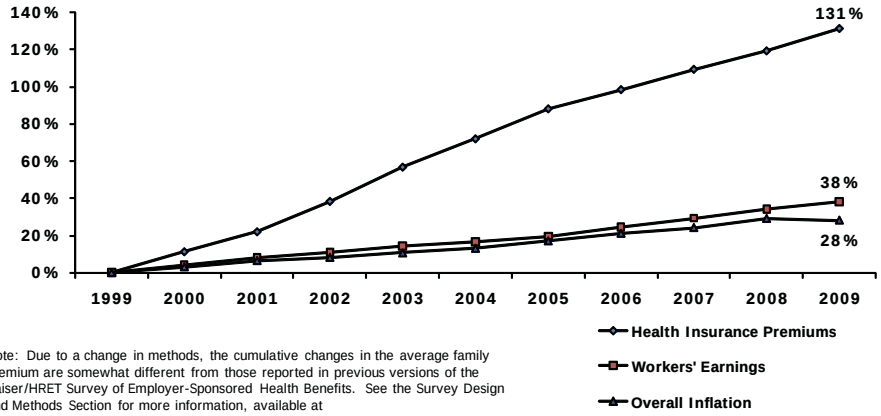
**Figure 2. Average Annual Premiums for Single and Family Coverage, 1999-2009**




* Estimate is statistically different from estimate for the previous year shown (p<.05).

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2009.

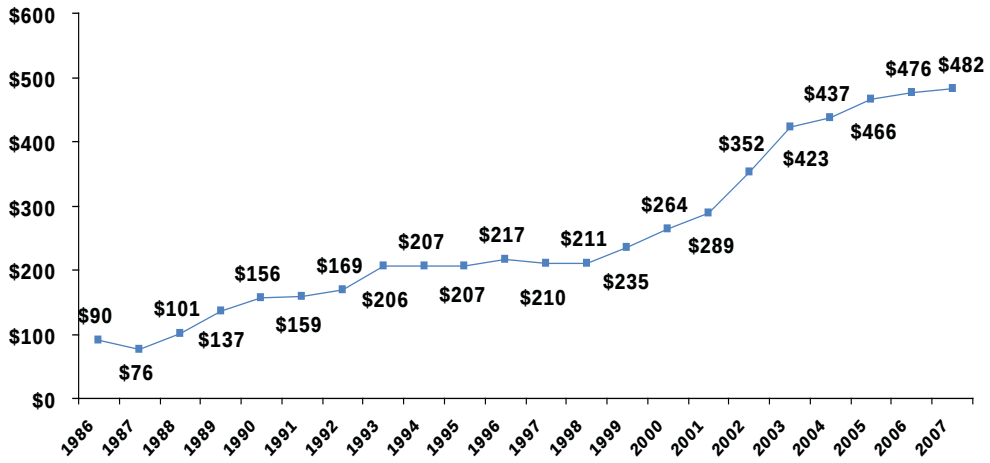
**Figure 3. Cumulative Changes in Health Insurance Premiums, Inflation and Workers' Earnings, 1999-2009**




Note: Due to a change in methods, the cumulative changes in the average family premium are somewhat different from those reported in previous versions of the Kaiser/HRET Survey of Employer-Sponsored Health Benefits. See the Survey Design and Methods Section for more information, available at http://www.kff.org/insurance/7936/index.cfm.

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2009. Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April), 1999-2009; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey, 1999-2009 (April to April).

**Figure 4. Private Health Insurance Administrative Costs per Person Covered, 1986-2007**




Notes: These data show the net cost of private health insurance per private enrollee (including Blue Cross/Blue Shield, commercial insurance, HMOs and self-insured plans), as calculated by the Centers for Medicare and Medicaid Services. Net cost of insurance is the difference between premiums earned and benefits incurred, and includes insurers' costs of paying bills, advertising, sales commissions and other administrative costs; net additions/subtractions from reserves; rate credits and dividends; premium taxes; and profits or losses. Private enrollment is estimated by CMS using the National Health Insurance Survey and the Current Population Survey.

Source: Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group, at http://www.cms.hhs.gov/NationalHealthExpendData/ (see Historical; National Expenditures by type of service and source of funds, CY1960-2007, file nhe2007.zip, Admin.& Net Cost of Priv. HIth Insurance, Pvt Health Insurance); and unpublished CMS data on private health insurance enrollment.

by increased revenues of $397 billion and spending decreases of $514 billion.

The Baucus bill would affect the Louisiana Medicaid program by increasing the number of people eligible for aid, thus increasing the state's costs for that program. The federal share of total costs would be 95 percent until 2019 when it would decrease to 92.7 percent. Estimates of the measurable impact on the state budget range widely.

The Louisiana charity hospital system would lose funding if a greater share of uninsured were made eligible for Medicaid coverage. The current primary source of funding for the state's charity hospitals is Disproportionate Share Hospital (DSH) funds for care of the uninsured, which would be reduced by 50 percent (about $370 million in federal funds) when 50 percent of the state's uninsured are covered as proposed. Additional reductions would occur in proportion to the decline in the number of uninsured. There would be a substantial system-wide loss of patients in the public system and some hospitals could ultimately close from loss of patients and revenues.

For employers, the changes would mean new mandates to provide health insurance coverage for employees. Employers with more than 50 workers would pay a penalty if they don't offer coverage to each full-time worker who obtains subsidized coverage through the insurance exchanges. Businesses with less than 50 workers would be exempt from the penalty.

The impact to individuals would be significant in terms of the incentives to purchase coverage including penalties, tax credits and cost-sharing plans. Those with incomes below 300 percent of poverty would pay a tax of $750 if they don't have coverage. Those with higher incomes would pay $950. The premium credits would be granted on a sliding scale for those with annual incomes of 100 percent to 400 percent of poverty ($22,000 to $88,000). The cost-sharing subsidies would pay 90 percent of benefit costs for those with incomes at 100 percent to 150 percent of poverty and would pay 80 percent of benefit costs for those with incomes at 150 percent to 200 percent of poverty.

There would also be a tax imposed on insurers. Starting 2013, insurers would pay a 35 percent excise tax on plans valued at $8,000 annually for individuals or $21,000 for families.

For more information on health care reform options for Louisiana, access these PAR reports at www.la-par.org:

- "Public Mental Health Care in Louisiana," to be released Fall 2009
- "Assessing the Louisiana Health First Plan," December 2008
- "Realigning Charity Health Care and Medical Education in Louisiana," May 2007
- Action Steps for Access to Care, June 2006

# PAR Presents

Senior Health Care Policy Analyst David W. Hood frequently contributes to the public debate about health care reform options in Louisiana by delivering presentations and participating in various task force and advisory activities. The underlying research and analysis that form the basis of PAR research reports is a valuable resource to help guide policy-makers and interested citizens as proposals are considered. The following list represents a sampling of his recent presentations and speaking engagements:

| | |
|---|---|
| 09/25/09 | CABL Leadership Louisiana Conference in Monroe. Participated in panel discussion on health care reform in Louisiana and current national reform proposals. |
| 09/29/09 | Testified before Advisory Group on Efficiency and Benchmarking, Commission on Streamlining Government, on charity hospital system and construction of planned LSU medical center in New Orleans. |
| 09/30/09 | Rotary Club of Baton Rouge. Presentation: "Impact of National Health Reform on Louisiana." |
| 10/06/09 | Testified before Advisory Group on Efficiency and Benchmarking, Commission on Streamlining Government, on charity hospital system and construction of planned LSU medical center in New Orleans. |
| 10/14/09 | Tulane Medical School Faculty "Grand Rounds." Present information on national health reform and its impact on Louisiana health delivery system, medical education and public hospital system. |
| 10/23/09 | Louisiana Health Care Commission. Participate in panel discussion on impact of national health care reform on Louisiana. |

We are seeking philanthropic support to create a permanent research position in health care policy.

Please help us reach our $2 million endowment campaign goal.

*For more information, contact Susan Mintz Kantrow at (225) 926-8414.*


*The Public Affairs Research Council (PAR) is a private, nonprofit, non-partisan public policy research organization focused on pointing the way toward a more efficient, effective, transparent and accountable Louisiana government. PAR was founded in 1950 and is a 501(c)(3) tax-exempt organization supported by foundation and corporate grants and individual donations. PAR has never taken state government funds.*

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