



**BlueCross BlueShield  
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An Association of Independent  
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## **STATEMENT**

**Before the**

**UNITED STATES SENATE FINANCE COMMITTEE  
ROUNDTABLE**

**On**

**Health Care Coverage**

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## Introduction

The Blue Cross and Blue Shield Association (BCBSA) commends Chairman Baucus's and Ranking Member Grassley's leadership in holding this important series of roundtable discussions to bring stakeholders together to work toward solutions to improve today's health care system.

BCBSA is pleased Congress and the Administration have made healthcare reform a national priority. BCBSA strongly believes that everyone in our country should be insured. We share the commitment to enacting health care reform legislation this year that expands coverage to all Americans, reins in costs, and improves the quality and safety of care delivered to patients.

BCBSA represents the 39 independent, community-based Blue Cross and Blue Shield companies that collectively provide health care coverage for over 100 million individuals – one in three Americans. With over 80 years of experience, Blue Cross and Blue Shield Plans offer individual, small employer, and large employer market products in every zip code. We also partner with the government in Medicare, Medicaid, the Children's Health Insurance Program (CHIP), and the Federal Employees Program. As such, the Blue System has a unique perspective on how to improve our health care system.

## Recommendations

We believe that the most effective way to expand coverage is to build on the employer-based system – which already provides coverage to more than 160 million people today. Our proposal, *The Pathway to Covering America*, seeks to expand coverage, rein in costs, and improve quality through five recommended steps:

1. **Encourage research on what works** by establishing a permanent, independent comparative effectiveness research institute;
2. **Change incentives to promote better care** instead of more services;
3. **Empower consumers and providers with information and tools** needed to make more informed decisions;
4. **Promote health and wellness** by encouraging healthy lifestyles to prevent disease and managing and coordinating the care of those with chronic illnesses; and
5. **Foster public-private coverage solutions** to make sure everyone is covered, with subsidies for individuals and small employers to purchase private coverage, as well as targeted expansions of Medicaid and CHIP.

Two weeks ago, our Chief Medical Officer, Dr. Allan Korn, participated in the Committee's Roundtable to share our recommendations on delivery system reforms by focusing on our first four *Pathway* recommendations. Our statement today focuses on our fifth recommendation -- fostering public-private coverage solutions for our nation. Specifically, we cover:

- Tailored recommendations to cover the diverse group of uninsured;
- Personal responsibility for obtaining health coverage along with federal subsidies;
- Insurance market reforms to assure everyone has access to affordable insurance;
- Recommendations to simplify the purchasing of insurance; and
- New, expanded role for the federal government.

### ***Tailored Solutions to Address the Uninsured***

Recognizing that the uninsured is a diverse group, BCBSA recommends tailored solutions to help the three key segments:

1. *Those squeezed out by cost:* Approximately 56 percent of the uninsured may have difficulty affording coverage because they are ineligible for government assistance, but earn less than 300 percent of the federal poverty level. BCBSA recommends:
  - *Providing four new types of tax assistance:* Congress should enact: (1) a tax credit for small employers; (2) a refundable tax credit for those whose health premiums represent a large share of their income; (3) a refundable tax credit to help those between jobs; and (4) tax deductibility for those without access to employer coverage.
  - *Expanding the government safety net:* Medicaid should be extended to cover everyone under the federal poverty level who is currently not eligible for Medicaid.
2. *Those missing out on public coverage:* Twenty-five percent of the uninsured (12 million) are eligible for Medicaid or SCHIP under current rules, but are not enrolled.
  - BCBSA strongly supported reauthorization of the Children's Health Insurance Program, including the additional funding for outreach and enrollment for those who are eligible but not enrolled and the new "Express Lane" expedited eligibility process for states. Ensuring expanded enrollment in CHIP is a critical undertaking. Blue Plans, which serve a third of CHIP enrollees today, look forward to working with states and the federal government to expand coverage to the estimated 4.1 million additional children who will obtain coverage under the reauthorized program.
  - We also supported the inclusion of a new state option for subsidizing employer premiums. Premium assistance is a "win-win" approach to expansion because it leverages employer coverage and employer contributions, and expands access to family coverage for lower-income employees who may not otherwise be able to afford their share of the premium.
3. *Those opting out of coverage:* Twenty percent of the uninsured may be able to afford insurance, but may (1) not value it because they are young or healthy; (2) be unaware of coverage options and their tax deductibility (for the self-employed); or (3) overestimate the cost of coverage. BCBSA recommends:
  - *Educating Americans about the importance of being insured:* The public and private sectors should partner on a broad-based educational campaign on the value of insurance.
  - *Ensuring all individuals obtain coverage:* create a new health coverage responsibility program as described below.

### ***Personal Responsibility for Obtaining Health Coverage***

To achieve universal coverage, BCBSA supports a new health coverage responsibility program for all Americans to obtain and maintain health coverage. This health coverage responsibility program is essential to assuring everyone has coverage and keeping premiums affordable.

Along with this new program, BCBSA supports insurance reforms in the individual market with subsidies to make coverage affordable, as discussed below.

It is important to note that subsidies alone are not an adequate substitute for an effective health coverage responsibility component. A recent RAND analysis estimated that even with full subsidies for persons with incomes up to 200 percent of federal poverty level and partial subsidies up to 400 percent of federal poverty level, only 12.4 million individuals would be newly insured. In contrast, combining these subsidies with an effective health coverage responsibility component would increase the newly insured to 33.5 million.

The primary reason that many individuals lack coverage today is due to cost. To assure coverage is affordable, it is critical Congress provide targeted subsidies to help those likely to have difficulty affording insurance. BCBSA supports:

- 1. Tax credits for low-wage workers in small businesses.** Low-wage workers in small firms are less likely than those in large firms to have employer-sponsored coverage. According to research conducted by the Employee Benefits Research Institute, many small firms cite that they do not offer coverage because their workers could not afford it. This tax credit is likely to encourage small businesses to offer health coverage. EBRI reports that among small employers who do not offer coverage, 71 percent would be more likely to seriously consider offering health benefits if the government provided assistance with premiums.
- 2. Tax-deductible insurance premiums for those without access to employer-sponsored coverage.** Today, the vast majority of individuals without access to employer-sponsored coverage must pay for coverage without an income tax advantage or deduction, unlike those receiving coverage through an employer, who do not pay taxes on the value of their employer-sponsored plan. Adopting this proposal would address this fundamental inequity and improve affordability for individuals without employer coverage.
- 3. A refundable, advanceable tax credit for those whose premiums represent a disproportionate share of their income.** This tax credit would help people who would otherwise have difficulty affording coverage while targeting resources to those who are most in need of assistance.
- 4. A refundable tax credit to help those between jobs.** People who are unemployed often have difficulty affording coverage, and this tax credit would provide stop-gap assistance, helping to ensure there is no lapse in health care coverage.

### ***Insurance Market Reforms to Assure Everyone has Access to Affordable Insurance***

An effective, health coverage responsibility program that includes federal subsidies for those that need help purchasing coverage is essential for insurance market reforms to work. With these components in place, BCBSA supports a new requirement for all insurers to accept everyone in the individual market regardless of their health status (“guarantee issue”). Guaranteed issue can only work if everyone – young and healthy as well as higher risk individuals purchase coverage.

BCBSA also supports new rating rules in the individual market, including:

- *Prohibitions on Health Status Adjustments.* Insurers should not be allowed to vary premiums based on health status once everyone is covered. Experience shows that bans on health-status rating in the voluntary market lead to significant increases in premiums for many people, especially young and healthy individuals. As healthier people drop coverage because of increased premiums, subsidies for sicker enrollees are lost and the remaining enrollment is left with much higher premiums.
- *Continuation of Age Adjustments.* It is extremely important to continue to allow insurers to vary premiums based on age – even with a health coverage responsibility program. Age adjustments are essential to enable younger individuals – who typically earn less than older people – to buy coverage and comply with health coverage responsibility program. Younger people often do not value health insurance because they tend to use fewer medical services. If the premiums are set too high, there is likely to be a backlash among younger people.
- *Continuation of Wellness and Geography Adjustments.* Insurers should be encouraged to adjust premiums based on wellness factors (such as non-smoking) and geography. Wellness adjustments provide important incentives for consumers to engage in healthy behaviors and help prevent chronic illnesses. In addition, given the significant variation in healthcare costs across different regions in the country, premium adjustments to account for geography are critical.

These reforms must be appropriately phased-in, taking into account state variations, and actuarially modeled to avoid disruptions and major premium hikes to consumers currently in the market.

States should continue to be the primary regulators of insurance to best protect consumers. Federal rules should set minimum standards upon which states can build, and all insurers offering coverage in a state should be required to abide by the same rules. States have a long, successful history of regulating health insurance and protecting consumers – a role that could not be replicated effectively at the federal level. Further, we recommend exploring broadly-funded state reinsurance programs with federal funding for persons with high medical costs to ensure that individual market premiums are affordable for everyone.

Health coverage responsibility and adequate subsidies are essential to ensuring that guaranteed issue and community rating reforms work. In the 1990s, several states experimented with guaranteed issue and community rating reforms in a voluntary market. These states experienced an adverse selection spiral, where younger and healthier individuals opted out of the insurance market, causing higher premiums for those remaining in the insurance market – who often tended to be older and less healthy. States saw dramatic premium increases, drastic reductions in the number of individuals buying coverage, and fewer insurance products being available to consumers.

### ***Making it Easier to Shop for Coverage: The State Health Insurance Mart (SIM) Model***

We also believe insurance needs to be improved for small employers and individuals. In today's health insurance market, small employers and individuals often face challenges in shopping for health insurance and comparing choices based on important criteria such as cost and quality.

As part of a comprehensive health reform plan, BCBSA urges Congress to enact legislation to encourage states to establish "State Insurance Marts" (SIMs) to simplify shopping, increase

competition among insurers and help educate purchasers on subsidy options. BCBSA's SIM proposal would make it easier to shop for coverage by creating a central point in each state where individuals and small businesses could easily compare coverage options and apply for both coverage and subsidies.

Under the SIM model, each state – building on its expertise as the regulator of its health insurance market today – would develop a central internet portal listing for all products for sale to individuals and small groups. These sites could be linked via a national framework and would enable:

- **Comparison of all insurance options in a respective state based on key factors,** including benefits, price, quality metrics, and provider networks. Each state would develop easy-to-understand comparison templates to promote transparency and informed decision-making.
- **Real-time price quotes from multiple insurers.** Each state would develop standard applications that individuals and small businesses could use to apply to several insurers simultaneously and to obtain estimated premium quotes instead of completing multiple applications and waiting for each insurer to follow-up.
- **Calculation of any tax benefits and subsidies available or eligibility for Medicaid.** Enrollees could enter basic financial information, learn about the estimated final cost of coverage (considering any applicable subsidies), and learn if they are eligible for Medicaid.
- **Simplified enrollment in the plan of choice.** Individuals and small businesses could easily enroll in coverage online or apply for subsidies directly through interface with the agency verifying eligibility.

BCBSA's SIM proposal would increase competition in the small employer and individual health insurance markets. SIMs would list all products for sale to individuals and small groups by all insurers in the state and for the first time allow consumers and small businesses to compare all plans in a state on price and other important factors.

A number of federal health care reform proposals would create a new federal agency called a "connector" or an "exchange," intended to make it easier for individuals and small businesses to purchase health insurance. However, creating a federal "connector" would be complex, costly and time-consuming. Creation of a federal connector could also undermine state regulation and authority, creating conflicting federal-state rules that would result in regulatory confusion and adverse selection.

A state-based approach would accomplish the goals of a federal connector while ensuring current consumer protections afforded by state oversight and assuring faster implementation at lower costs by avoiding the creation of a new federal bureaucracy. To encourage states to establish State Insurance Marts, federal funding should be provided to offset the cost of development.

In addition, many purchasers today are unaware of the tax advantages for purchasing health insurance, the availability of public programs, and other options for obtaining coverage. SIMs would address this need by providing a central online site in each state (with a national landing pad for nationwide outreach) where consumers and small employers could learn about

coverage and subsidies, and obtain information on public programs, including Medicaid and CHIP.

### ***New, Expanded Role for the Federal Government***

BCBSA strongly supports passing comprehensive healthcare reform this year that meets the objectives of Congress and the Administration. We believe the federal government plays a vital role in assuring coverage for older Americans, the disabled and lower-income individuals. There are also several new major roles the federal government should undertake:

- Expanding Medicaid to cover all people in poverty and enrolling all those who are eligible.
- Reforming Medicare to pay for quality and assuring Medicare's long-term solvency.
- Establishing new rules for insurers to assure access for everyone regardless of health.
- Providing subsidies to help those who may have difficulty affording coverage.

The recommendations BCBSA has laid out today that build on the employer-based system to extend coverage to all, when coupled with the recommendations we presented to the Committee at its April 21 Roundtable on delivery system reforms, would achieve President Obama's eight healthcare reform principles to: protect families financial health; make coverage affordable; aim for universality; provide portability of coverage; guarantee choice; invest in prevention and wellness; improve patient safety and quality care; and maintain long-term financial sustainability.

Creating a government-run plan – in any form – to compete alongside the private sector for non-Medicare/Medicaid eligible individuals is unnecessary to achieve comprehensive reform and would have devastating consequences.

First, a new government plan would decimate the employer-based system that covers 160 million people today -- the vast majority of whom are very happy with their health plan. Studies have shown that a government program would result in millions of people losing their employer-provided coverage. The Lewin Group estimates that a Medicare-like plan would result in more than 118 million people shifting into the government program almost overnight. As two-thirds of the population moves into a government plan, the employer system will evaporate and leave people with no choice but the government plan.

Second, it would jeopardize much needed delivery system reforms critical to controlling costs. We agree Medicare needs to be reformed to reward high quality care and good outcomes rather than just paying for services. We commend the Committee for issuing delivery system reform options that will help modernize the Medicare program. However, history has shown the government can be slow to innovate and implement changes due to the complex legislative and regulatory processes as well as political pressures. For example, the government has not been successful in selectively contracting with the best providers.

The private sector, on the other hand, is free to innovate, and is having excellent results. For example, BCBSA is significantly improving care outcomes and lowering costs through our national program of nearly 800 Blue Distinction Centers (BDC) across 43 states. This program designates facilities that have demonstrated expertise in delivering quality healthcare in the challenging specialty areas of Transplantation, Bariatric Surgery, Cardiac Care, and Complex and Rare Cancers. Readmission rates at our Blue Distinction Centers for Cardiac Care® are much lower than at other hospitals (26 percent lower for bypass surgery and 37 percent lower for outpatient angioplasty, based on 30-day cardiac-related readmission rates).

Third, some are looking at government plan alternatives that could “negotiate” rates with providers. No matter how such alternatives are initially structured, history has shown the government will use its built-in advantages to under pay providers, resulting in even greater cost-shifting to the private sector, making private insurance unsustainable. Currently, cost shifts to the private sector inflate family coverage by nearly \$1,800 per year.

It is also important to point out that the original Medicare program did not initially set provider rates, however within a few years, budget pressures resulted in government price controls. Underpayments to providers create major access issues. A 2008 MedPAC study found 29 percent of Medicare beneficiaries report problems in finding a physician. The Texas Medical Association reports only 38 percent of primary care physicians in the state will accept new Medicare patients.

Some advocates of creating a new government health plan have responded to cost-shifting concerns by recommending all payers be allowed to use government payment rates. This “all-payer” approach would not be effective in holding down costs and improving quality. Instead it would lock in inefficiencies and undermine efforts to improve our delivery system by stifling innovations currently underway in the private sector. It would also lead to government price setting in order to ratchet down costs and would likely lead to a single payer system.

Lastly, a new government plan option would create an expensive, unnecessary new entity that would be a diversion from the needed goals of health reform: extending coverage to the uninsured, modernizing Medicare and reining in costs. Furthermore, a new government plan likely would end up covering millions of Americans who already have coverage, thereby losing the billions of dollars in employer subsidies that currently help finance our health care system.

## **Conclusion**

BCBSA appreciates this opportunity to share our recommendations for ensuring coverage for all Americans. We look forward to continuing to work closely with Congress, the Administration, and all stakeholders to enact comprehensive health care reform legislation this year.