COMMITTEE ON FINANCE
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Max Baucus, Chairman
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BAUCUS, GRASSLEY RELEASE POLICY OPTIONS FOR FINANCING COMPREHENSIVE HEALTH CARE REFORM

Options are the final of three papers in Finance leaders' health reform effort

Washington, DC – Washington, DC - Senate Finance Committee Chairman Max Baucus (D-Mont.) and Ranking Member Chuck Grassley (R-Iowa) today released policy options for financing reform of America's health care system. The options released today are the third and final round of policy options for discussion before the Finance Committee marks up legislation in June. The options for financing health reform follow the release of policy options for reducing costs in the health care delivery system and for expanding quality, affordable health care coverage to all Americans. Three areas of potential funding sources explored in the financing options are: savings achieved from within the health care system from reductions in current levels of spending; reevaluating current health tax subsidies; and changing non-health tax provisions. Senators Baucus and Grassley will hold a meeting of Finance Committee members to "walk through" the financing policy options on Wednesday, May 20, 2009.

"Health care reform must preserve the things Americans like about our health care system," said Baucus. **"But it must also begin to slow the rapid increases in health care costs that take up more and more of the budget for American families and businesses. Reforming the system will likely require an upfront investment, but I'm confident it will pay dividends in the future for our health, our economic competitiveness, and our federal budget. The bottom line is that we can't afford not to act. Without health care reform, health care spending will reach 4.4 trillion by 2018. These policies lay out a wide variety of options for making that investment, and I look forward to working with my colleagues to determine the best way forward."**

"Everybody agrees we spend too much money on health care, especially to have 46 million uninsured people," Grassley said. **"The policy options are meant to bring current spending under control and also help cover the uninsured and make coverage more secure for the people who already have it."**

The policy options focus on increasing payment accuracy and reducing disparities in payment and spending amounts among different geographic regions across the country. Additionally, tax provisions are included that promote wellness and healthy lifestyle choices, as well as proposals President Obama included in his budget. The complete text of the policy options on financing comprehensive health care reform can be found at the Finance Committee website at http://www.finance.senate.gov/sitepages/leg/LEG%202009/051809%20Health%20Care%20Description%20of%20Policy%20Options.pdf. Public comments should be directed to Health_Reform@finance-dem.senate.gov. The deadline for public comments on the financing policy options is May 26, 2009. A summary of the policy options for financing comprehensive health care reform released today follows here.

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POLICY OPTIONS FOR FINANCING HEALTH CARE REFORM

Health System Savings – Looking within the current health care system for opportunities to reduce waste and inefficiencies can produce significant savings to finance health care reform. In April, the Finance Committee released policy options that would improve quality and patient care in the health care delivery system, while reducing costs at the same time. The policies that follow here explore further options for reducing costs within the current health care system.

Ensuring Appropriate Payment – Medicare and Medicaid payments often differ significantly from the actual cost of providing health services. The policy options take a number of approaches to correct this inconsistency without hindering the quality of care or patient access by updating payment rates for home health services, which have the highest profit margin in Medicare, to be more reflective of actual costs of providing care; ensuring appropriate payments for Durable Medical Equipment such as oxygen or power wheelchairs; adjusting payments for high-growth, potentially overvalued services such as imaging and minor procedures; reducing "market basket" updates for providers whose payments are higher than actual costs; and increasing and expanding the rebates paid by drug manufacturers to state Medicaid programs.

Capturing Productivity Gains—Today, Medicare payment rate updates don't account for new technologies and other productivity increases that reduce costs. This results in an exaggerated payment rate that is more than the actual cost of providing medical services. The policy options look at three ways to adjust the annual inflationary increase to account for productivity in Medicare payment rate updates. The first option would reduce the inflationary update by an amount equal to all of the expected productivity gains, the second option would reduce the update by an amount equal to one-half the expected productivity gains, and the third option would reduce the update by an amount equal to one quarter of the expected productivity gains.

Reducing Geographic Variation – Researchers at Dartmouth and elsewhere have found that health care spending varies widely across the United States. Moreover, higher health care spending does not correspond to better quality care of care. The portion of total spending on health care items and services that do not produce better health outcomes is estimated to be as high as 30 percent of Medicare spending. The policy options explore ways to reduce geographic spending variation by reducing Medicare payments in areas where spending is above the national average. Adjustments would be made to reflect differences in input prices and beneficiary health status.

Making Beneficiary Contributions More Predictable—Out-of-pocket costs for Medicare beneficiaries vary significantly by the type of service provided. As a result, Medicare beneficiaries lack consistent incentives to weigh relative costs when choosing among options for treatment. In addition, there is no annual limit on the amount a patient must pay out of his or her own pocket. In order to meet those costs, most Medicare beneficiaries obtain additional coverage to help meet these costs through sources such as Medigap. Studies have found that beneficiaries with supplemental coverage use more services than beneficiaries without it, which drives up health care costs. The policy options look at ways to rationalize that out of pocket cost-sharing so it is more predictable and consistent with proposals to improve the quality of care. One option is to change cost sharing in Medicare to, for example, apply a single deductible and copayments where there is none today. Other options include instituting nominal cost sharing in private Medigap policies, or capping total out-of-pocket cost sharing in Medicare or Medigap, or a combination of these.

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Exploring current health care tax expenditures—The policy options explore several options for modifying the current tax treatment of health-related expenses to eliminate inconsistencies and discourage wasteful health care spending.

Exclusion for Employer-Provided Health Insurance--Under current law, employer-provided health insurance is not counted as income for tax purposes and the amount of health care benefits that are counted as tax free is unlimited. This tax-free status encourages employers to offer "Cadillac plans," or overly generous health care plans that promote the overuse of health care services and drive up health care costs. Moreover, the plans are subsidized by taxpayers as a result of being tax free. The policy options explore five changes to make the exclusion more equitable and efficient. These options include capping the exclusion based on the value of health insurance policy or the income level of the employee eligible for the exclusion. A third option would be to cap the exclusion based on both the value of the health insurance policy and income level. Another option would be to convert the employer-provided health insurance exclusion to an individual tax deduction or credit. The options also consider whether to grandfather in existing plans so that benefits provided under existing collective bargaining agreements are not limited.

Modify Health Savings Accounts (HSAs) – Individuals enrolled in high-deductible health insurance plans can set up Health Savings Accounts (HSAs) to withdraw from for qualified medical expenses without paying taxes. Likewise, contributions made to HSAs by individuals and employers are not considered income for tax purposes and earnings on HSAs accumulate tax free as the balances rollover from year to year. The policy options explore three ways to modify HSAs. The first option would restrict HSA contributions to the lesser of the individual's deductible or the statutory limit. The second option would increase the penalty for withdrawing from an HSA for non-medical expenses from 10 percent to 20 percent. The third option would require certification from the employer or from an independent third party that HSA withdrawals were made for medical expenses.

*Modify or Eliminate Flexible Spending Accounts (FSAs) – S*imilar to HSAs, FSAs allow individuals and their employers to contribute an unlimited amount of tax free income to a Flexible Spending Account. Employees can withdraw from their FSA to pay out-of-pocket medical expenses besides premiums. But unlike HSAs, FSAs do not roll over from year to year and operate on a "use-it-or-lose-it" principle. The policy options explore limiting the amount that can be contributed to an FSA or eliminating FSAs altogether.

Standardize the Definition of Qualified Medical Expenses-- Under current law there is no standard definition for what qualifies as a medical expense for HSAs, FSAs, or itemized medical expense tax deductions. The policy option would apply a standard definition of qualified medical expenses across the board.

Modify the Itemized Deduction for Medical Expenses--Under current law, a taxpayer that itemizes deductions may take a deduction for medical expenses – including insurance premiums and out of pocket medical costs – in excess of seven and a half percent of adjusted gross income. According to the Congressional Research Service, only six percent of all tax returns take the medical expense deduction. The policy options examine elimination the itemized deduction for medical expenses or raising the seven and a half percent floor for claiming deductions.

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Modify the Special Deduction for Non-Profit Blues – Under current law, Blue Cross/Blue Shield and other similar organizations are eligible for a 25 percent tax deduction of total claims and certain expenses each year. These organizations are also exempt from the requirement to reduce deductions for unearned premiums by 20 percent. Blue Cross/Blue Shield has historically received a tax preferred status because it was originally created to provide a more significant community benefit than other insurance companies. However, an overhaul of health related tax policies provides the opportunity to reassess that tax treatment. The policy options look to either reduce the special tax deduction from 25 to 10 percent or eliminate the deduction and unearned premium exclusion altogether.

Modify the FICA Tax Exemption for Students--Current law exempts students employed by a college or university from contributing to FICA through payroll taxes. Teaching hospitals have applied this exception to medical residents receiving stipends. The IRS issued regulations to narrow the definition of school for purpose of the exemption and better describe student employment. The policy option would formally adopt the IRS regulation into law.

Medicare Payroll Tax for State and Local Government Employees – Certain State and local governments do not currently pay taxes Medicare payroll taxes on their employees. The policy option would extend Medicare payroll tax to all State and local government employees.

Modify the Rules Pertaining to Nonprofit Hospitals – Under the policy options, non-profit hospitals would be required to maintain a minimal level of charitable activity, limit charges to uninsured, indigent patients, and limit aggressive collection actions. Hospitals that do not meet those requirements would be subject to an excise tax.

Lifestyle tax proposals – The policy options include two proposals to promote wellness and healthy choices, and curb activities that increase overall health care costs.

Increase Taxes on Alcoholic Beverages – Current law imposes an excise tax on alcoholic beverages, charging $13.50 per proof gallon, which translates to about 21 cents per ounce of alcohol. Because of this measurement, the excise tax treats different types of alcohol differently. Beer is measured by the barrel and the tax rate per barrel is $18 or about 10 cents per ounce of alcohol. The current tax on wine is $1.07 per gallon or about 8 cents per ounce of alcohol. The policies present the option of standardizing the tax on alcohol and increase the excise tax to $16 per proof gallon.

Impose an Excise Tax on Sugar-Sweetened Beverages – Sugar-sweetened beverages contribute to obesity which drives up health care costs within the system. The policy options would expand on what some states have already done by imposing a federal tax on beverages sweetened with sugar, high-fructose corn syrup, or other similar sweeteners. The tax would not apply to artificially sweetened beverages.

Revenue provisions presented in the Obama Administration's Budget—The Obama Administration proposed a number of revenue raising measures in the President's Health Care Reform Revenue Fund. In deference to the President, all of the Administration's proposals are presented in the policy options.

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