



CLIENT ADVISORY

Healthcare Reform

July 21, 2009

Proposed Health Reform Legislation Will Have Major Impact on Large and Small Employers

Obama actively pressing for a bill to hit his desk by Fall 2009

The debate over comprehensive health reform in Washington, DC gets more intense with each passing day. Legislation is on schedule to be voted on by the entire House of Representatives at the end of July. The Senate is working on two major bills at a slightly slower pace, but President Obama is actively pressing for a bill to hit his desk by the fall. Through our professional trade association, the National Association of Health Underwriters (NAHU), Seacrest Partners keeps up to date on all of the latest legislative happenings and how the bills being drafted could impact our clients.

ACTION:

Contact your congressional representatives to let them know your concerns regarding health reforms currently being considered.

GOVERNMENT-RUN PUBLIC PLAN

One of the most contentious ideas being considered is whether or not reform should include a government-run health insurance option to compete with private health plans. Proponents say that a government-run plan is needed to provide real competition to the private market and that it will bring down costs. But, on the flip side, the opposing team's quarterback can't also be the referee. Since a government-run public plan would not be subject to the same rules for financial solvency and would not be required to pay taxes as private health insurance companies are required to do, its initial operating costs would be less, creating the potential for price competition.

However, other aspects of a government plan's structure would make it unlikely to result in a lower total cost over time. The government-run plans currently being proposed would be undercapitalized in a way never permissible for private companies operating in the regular insurance market. Its structure creates the likelihood that, over time, there would be another potential government bailout of a struggling program. Additionally, because these plans would operate with advantages not available to private plans, the unlevel playing field could eventually force everyone to be covered under the government plan (*which is hardly fair to any business*). Having everyone covered by a government plan has resulted in waiting lines and rationing in Canada and Great Britain, which could become the norm in the United States if this plan becomes a reality.

ACTION:

If you have concerns about a government-run public plan option and how it could impact your coverage options as an employer, contact your congressional representatives or send a pre-written email to them by visiting NAHU's website at <http://capwiz.com/nahu/issues/alert/?alertid=13711431>.

The bill moving rapidly through the House of Representatives includes a government-run public plan option as described above. This version of the government-run public plan would compel all doctors and hospitals that serve Medicare patients to participate. In the Senate, one of the bills on the table, which is being offered by Senator Ted Kennedy, also includes a government-run plan option. The Senate Finance Committee is still drafting its final proposal, but either a government-run plan or a compromise where the federal government would help start new non-profit cooperative health plans are the ideas it is actively considering.

Many employers that already provide private health insurance to their employees have concerns about the cost burden a public plan would place on all Americans, especially those who want to keep their private coverage. Existing public health programs like Medicare and Medicaid pay providers a reduced rate for their services. To compensate, doctors and hospitals shift their remaining costs onto private payers. Studies show this cost-shift is already costing the average American family of four over \$1,788 per year in higher health insurance premiums. If a new government-run plan is created, this cost-shift onto privately insured people and businesses would go up exponentially.

SHARED RESPONSIBILITY—EMPLOYER AND INDIVIDUAL MANDATES

Another idea that's receiving a great deal of congressional attention is sharing responsibility for obtaining coverage among employers, individuals and the government. All of the bills under active consideration contain requirements that people obtain health insurance coverage, which is also known as an individual mandate. In addition to the individual mandate, the House bill and Senator Kennedy's bill include requirements for employers of more than 25 people to provide employees with qualified health insurance coverage. The Senate Finance Committee is also discussing including an employer mandate requirement in its draft proposal.

Employers that already provide health benefits to their employees may not think that these potential new requirements would impact them, or may even level the playing field between their company and those that do not currently offer coverage. But, like most things from Washington, the devil is always in the details, so it is important to examine the employer-mandate provisions under discussion very closely. The House bill, for example, would not only require employers provide coverage, but would also require employers to pay 72.5% of each employee's premiums for acceptable coverage (and 65% of the cost of those employees' family coverage premiums). It would also mandate coverage for part-time employees and require employers to pay for a portion of the costs on a pro-rata basis. Many employers now can't afford such generous contributions to their employees' health plan costs. Plus, "acceptable coverage" would include a wide range of mandated benefits, which are likely to be more expensive than what many employers are providing now. Employers that fail to comply would incur a penalty of eight percent of the company's payroll, along with the potential for additional payments and penalties down the road.

ACTION:

If you think employers should be able to continue to decide if and what health benefits they can afford to provide for their employees, contact your congressional representatives or send a pre-written email to them by visiting NAHU's website at

<http://capwiz.com/nahu/issues/alert/?alertid=13711461>.

An individual mandate would bring millions of more people into the coverage system, which we believe is ultimately good for the stability of the market and would benefit everyone. But if the mandate contains overly prescriptive requirements as to what constitutes acceptable coverage, it could also have a similar, although probably less expensive, impact on employers. Employers that don't offer coverage that meets the standards necessary would be under extreme pressure to modify their plans and increase the level of benefits they provide. Rather than imposing a complicated and expensive standard of coverage on all Americans, it would be better to use the standard of creditable coverage in current law that all employer plans follow.

WILL YOU REALLY BE ABLE "TO KEEP THE COVERAGE YOU HAVE" IF YOU LIKE IT?

President Obama has repeatedly promised that if an employer or individual likes the coverage that they currently have, they will be able to keep it. But Congress doesn't seem to be as committed to that promise. In the House, the bill under discussion would let employer group plans keep their current coverage and phase in reform requirements over five years. But, eventually, all employer plans would have to change to meet the terms of the proposed individual and employer mandates. That means changes the way group health insurance policies are rated, changes to their plan designs and mandatory inclusion of certain benefits. In the Senate, more inclusive grandfathering provisions are being discussed, but there would still be changes to the way policies are priced, new mandatory required benefits, and new requirements on health plans structures.

In both the House and the Senate, changes to the way health insurance policies are to be priced would be particularly significant for companies with more than 50 employees that do not self-insure their coverage. Under the current versions of the bills, these employers would no longer be able to price their plan based on the actual claims experience of their group, but would be forced into the same premium structure that applies to individuals and small groups. This would reduce pricing accuracy and potentially make coverage costs increase significantly.

TAKE ACTION

If you think Congress should let individuals and employers keep their current health coverage if they like it and not impose expensive new requirements on group health insurance plans, contact your elected officials or send a pre-written email to them by visiting NAHU's website at <http://capwiz.com/nahu/issues/alert/?alertid=13711476>.

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